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ABSTRACT

The primary goal of the Higher Education Finance Manual project is to assist in higher education decisionmaking as it relates to the need for and the use of financial information. The objectives of this manual are to: (1) provide uniform definitions and procedures for displaying and reporting those financial data used most often in higher education decisionmaking; (2) describe formats for the display and reporting of institutional financial data that logically organize those data specifically for the needs of planning and management; (3) provide explanations of the uses and limitations of higher education financial data provided in those formats so users of the information will better understand its significance and how it can be applied. Topics covered include: the balance sheet, fund balances, understanding financial reports, fund source/use schedules, and implications for accounting systems. (Author/PG)

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HIGHER EDUCATION FINANCE MANUAL

Field Review Edition

Technical Report No. 53

Douglas J. Collier

1974

National Center for Higher Education Management Systems
at Western Interstate Commission for Higher Education

HE 005 698

"An Equal Opportunity Employer"

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SECTION I

CHAPTER 1

INTRODUCTION

Higher education finance affects most individuals involved in, or concerned with, higher education, as well as most decisions made and questions asked about higher education. For a project like the Higher Education Finance Manual (HEFM) it obviously was necessary to include a consideration of the very wide range of concern finance touches on. Thus, the Task Force chosen to direct the development of this manual was the largest and most diverse ever to work on a project for the National Center for Higher Education Management Systems (NCHEMS). It included representatives of many different kinds of higher education institutions (both public and private) as well as representatives of state and federal agencies and legislative bodies and of national organizations representing the various constituencies involved in higher education financial planning and management. The advice and direction of the Task Force and several other advisory groups, along with the informal critique and review of individuals throughout higher education, have resulted in this document, the Higher Education Finance Manual.

DEFINING THE PROBLEM

The need for the HEFM project was brought about by marked changes in the environment in which higher education planning and management now must be conducted, by the introduction of a broader and more diverse constituency in the planning and management process, and by major changes in the kind of

information asked for and needed to make meaningful planning and management decisions at all levels.

The environment in which higher education planning and management must be conducted today is quite different from that of the expansive 1960's. Decision making now must be responsive not only to assumptions of growth but also to assumptions of a steady state, or even a declining state, for future planning models. Furthermore, the environment for decision making has been affected by cutbacks in funding, by increased costs and projections of declining enrollments, as well as by the disenchantment of the public over campus disorders and the dilemma of unemployed graduates. In addition, today's decisions often focus on the broader concept of postsecondary education rather than on higher education as a separate entity. This means that colleges and universities often find themselves competing with vocational/technical schools, proprietary (profit-seeking) schools, universities without walls, and even correspondence courses for both public support and students.

The constituency with which higher education now must communicate has expanded. Institutions have begun searching out new sources of funds and wider audiences, thereby bringing about a broader and more diverse constituency. For example, private institutions are looking to state agencies or state legislatures for funds. Public institutions, on the other hand, are being forced to rely increasingly on tuition from students as a source of funds and have begun to cultivate their alumni more assiduously than in the past. Public and private institutions find themselves looking increasingly to the federal government as a potential source of financial support.

Finally, the financial information used in the conduct of higher education planning and management has changed. Today there is widespread interest in costs and program information and there are requirements for more detailed information about almost every aspect of the institution's operations--past, present, and future. There has been a widespread introduction of centralized planning in higher education. The planner, as intermediary in this process, is asked to collect raw financial data from institutions, to aggregate it, to rearrange it, to combine it with nonfinancial data, and to apply it to the problem of concern to the decision maker. Although it is not possible always to know ahead of time the specific problems that will face decision makers, the data that planners must use in addressing these problems remain essentially unchanged. As a result, planners at all levels now are asking for financial data that can be related to non-financial data, financial data that can be related as closely as possible to the questions decision makers will be asking (which generally are structured around the objectives and outputs of education), and financial data that can be understood and used by persons unfamiliar with the details of any particular institution's operations. Institutions are being asked to provide all of these data in such a way that they can be compared to similar data at similar types of higher education institutions (that is, "compatible" data).

OBJECTIVES OF THE HEFM PROJECT

The primary goal of the Higher Education Finance Manual project is to assist in higher education decision making as it relates to the need for and the use of financial information. In determining what kind of manual

should be written to attain this goal, the task force decided to look first at the major issues confronting higher education decision makers. A list of such issues was drawn up by the task force for consideration in determining how to best carry out its charge. This list included student access to higher education, higher education's impact on manpower needs, research in higher education, the financing of higher education, efficiency and effectiveness in the management of higher education, the quality of educational programs, the economic impact of higher education, institutional financial health, the diversity of educational offerings, and the allocation of resources in higher education. The need for and the use of financial information in the decision-making process were examined separately for each of these issues.

On the basis of this analysis, the HEFM Task Force decided that the Higher Education Finance Manual could make the biggest contribution to higher education decision making if it did three things:

1. Provide uniform definitions and procedures for displaying and reporting those financial data used most often in higher education decision making.
2. Describe formats for the display and reporting of institutional financial data that logically organize those data specifically for the needs of planning and management.
3. Provide explanations of the uses and limitations of higher education financial data provided in those formats so users of the information will better understand its significance and how it can be applied.

AUDIT GUIDE--CUBA MANUAL--HEFM MANUAL

With the publication of HEFM, higher education's financial managers find themselves with three major publications intended to guide their efforts: (1) Audits of Colleges and Universities published by the American Institute of Certified Public Accountants (AICPA), referred to as the "Audit Guide," (2) the accounting section of the National Association of College and University Business Officers's (NACUBO) Administrative Services (which replaces the 1968 CUBA Manual), and (3) the NCHEMS Higher Education Finance Manual. The following discussion describes the unique objectives of these three manuals so that each can be viewed in a proper perspective.

Audits of Colleges and Universities--The stated purpose of the Audit Guide is "...for the guidance of members of the Institute [auditors] in examining and reporting on the financial statements of colleges and universities..." As such the Audit Guide sets forth the accounting definitions, report formats, and audit procedures the accounting profession feels must be used in order to provide for the full and adequate disclosure of the institution's financial status and of the results of its operations. The focus of the Audit Guide is on the responsibilities of the auditor in conducting audits of higher education institutions.

NACUBO's Administrative Services--The purpose of NACUBO's Administrative Services (which replaces the 1968 CUBA Manual) is to guide the business officer in the business management of the institution. It is intended to serve the needs of the institutional business officer, and as such covers all aspects of the business officer's job, from investment management to

personnel administration to legal problems. Principles of accounting and general practices of financial reporting constitute one section of the Administrative Services.

HEFM Manual--As described above, the purpose of the HEFM document is to facilitate the communication of financial data for purposes of planning and management. As such it is not limited to one single constituency, but is intended to serve all parties that must use higher education financial data. The primary difference between HEFM and the other two documents is its focus on the needs of the users of institutional financial information. Accounting terms and report formats are defined and described for persons unfamiliar with higher education accounting data rather than for the auditor or the business officer.

DEVELOPMENT OF THE HEFM MANUAL

Because of the three objectives of the HEFM project, the manual focuses on three areas: the definition of accounting terms and reporting procedures, the development of report formats which satisfy the needs of planning and management, and a description of the uses and limitations of financial information as displayed in those formats.

Definition of accounting terms and reporting procedures--Although no one set of accounting definitions and procedures is universally adhered to today, literature dealing with such accounting procedures and definitions has been published since 1911. One of the most widely used of these

publications is College and University Business Administration (which is being revised and will become part of NACUBO's Administrative Services manual). The most recent attempt at describing generally accepted definitions and procedures for reporting higher education financial data was the joint effort of the AICPA and the NACUBO in developing the "Audit Guide."

On May 21, 1973, a meeting was held to discuss the mutual concerns of NACUBO, AICPA, and NCHEMS related to higher education financial data. From this meeting evolved the idea for the Joint Accounting Group (JAG)--a cooperative effort of the three organizations (1) to develop categories and procedures for the reporting of revenue and expenditure data and (2) to assure consistency in the recommendations of the AICPA's Audit Guide, the HEFM manual, and NACUBO's Administrative Services manual. The HEFM project task force saw a cooperative effort of this type as an opportunity to obtain the uniform definitions and reporting procedures needed to meet its objective and therefore agreed to sponsor the work of the Joint Accounting Group. The results of this effort are set forth in Report of the Joint Accounting Group (AICPA, NACUBO, NCHEMS: 1974).

The definitions of accounting terms and reporting procedures described in the Higher Education Finance Manual are a combination of those set forth in the Audit Guide and those recently developed (consistent with the Audit Guide) specifically for the HEFM manual. The definitions and categories used in HEFM for Current Fund revenues and expenditures (see

Chapter 6: Definitions) are the recommendations of the Joint Accounting Group. These JAG categories also have been adopted for use in NACUBO's Administrative Services and in the AICPA's "Audit Guide."

The common links tying the three documents together are the accounting practices set forth in the Audit Guide and the current fund revenue and expenditure categories developed by the Joint Accounting Group. Therefore, all users can be assured that if an institution's financial data are maintained in accordance with the "Audit Guide" and the Joint Accounting Group's revenue and expenditure categories, those data will be consistent with the respective recommendations of HEFM, the Audit Guide, and the NACUBO Administrative Services manual.

Development of report formats--In analyzing the issues confronting higher education decision makers it was decided that a knowledge of two aspects of an institution's finances were essential: the institution's "financial status" and its "flow of funds." A knowledge of the institution's financial status (as portrayed in a Balance Sheet) gives the decision maker a reference point for the analysis of changes in the institution's finances (that is, its flow of funds). More detailed analyses of the institution's flow of funds also could tell the decision maker about the various programs the institution is supporting, as well as the extent of that support for each program. The task force determined that the report formats needed should give the decision maker information about both the institution's financial status and its flow of funds.

For the most part, the HEFM Task Force felt that the report formats described in the Audit Guide and the 1968 CUBA manual, if modified somewhat, could adequately meet HEFM's objectives in the area of report formats. It felt that modifications generally involved the substitution of most recent data categories for those described in the original version of the format. However, in certain instances the HEFM project Task Force felt it necessary to develop new report formats displaying financial data differently for planning and management purposes. The HEFM Current Fund Source/Use Matrix represents a new type of format for displaying Current Fund revenue and expenditure data and shows the user the relationships between the sources of restricted monies and the uses of those monies.

The report formats described in HEFM are just that--formats. The specific categories used for each HEFM format are exemplary and represent the HEFM Task Force's idea of the highest level of aggregation that should be used to report data useful for decision-making purposes. In every case, further breakdowns within each category can be used to obtain more detailed information in the same report format.

Description of uses and limitations--In many cases, knowing what information to use and knowing when to use it is a more important part of the planning and management process than the information being used. A frustration often felt by data providers is being asked to report information in such a way that they know it will mislead, rather than enlighten, the user of the information. Likewise, it is equally frustrating when users do not know

what kind of information is available and are forced to use data that cannot be easily related to their problem. Therefore, it was decided that a discussion of the uses and the limitations of each HEFM report format should be included in the HEFM manual. The purpose of this section is to provide some general guidelines for using the HEFM formats. For each report format, a set of hypothetical questions are answered using information contained in the HEFM format. These questions are included in an effort to describe for both data users and data providers how these formats can aid the user and to impress on the user how the information can be misleading, in what situations the use of a particular format might be valuable and conversely when it would be misleading, and when the HEFM report formats should be used in conjunction with other nonfinancial information in order to provide the information needed in a particular situation.

CHAPTER 2

HOW WILL HEFM HELP ITS READER?

The goal of the Higher Education Finance Manual is to assist in higher education decision making as it relates to the use of institutional financial data. The HEFM definitions, report formats, and descriptions of potential uses and limitations should help persons involved in all phases of the decision-making process, as well as persons who are interested only in a better understanding of higher education financial reports. For purposes of describing the value of HEFM, readers will be classified as (1) data providers and (2) data users. The data provider is the person who prepares the financial reports and provides miscellaneous financial information as needed in the decision-making process. The data user is anyone who has occasion to make use of higher education financial information. These two categories are used only to facilitate this discussion. It is recognized that in many instances an individual will be both a data provider and a data user (for example, the institution's fiscal officer).

DATA PROVIDER

Since HEFM deals only with institutionally maintained financial data, the data provider in most cases will be the institutional financial officer, whether referred to as the business officer, the controller, the vice-president of finance, or some other title. The following examples are given of how HEFM will help the data provider:

1. HEFM describes a set of definitions, categories, and accounting procedures for the uniform display and reporting of institutional financial data. Incorporation of these definitions, categories, and procedures (in particular the JAG revenue and expenditure categories) into the institution's accounting system will give the data provider the capability to prepare uniform financial statements consistent with the needs of AICPA, NACUBO, and NCHEMS. These same definitions and categories will be used in future financial sections of the Higher Education General Information Survey (HEGIS) and are being adopted for reporting purposes by many state-level planning agencies.

2. HEFM describes expenditure categories (as recommended by the Joint Accounting Group) that will minimize the need to perform "crossover" procedures in order to report expenditure data in the NCHEMS Program Classification Structure (PCS). Historically, reporting an institution's expenditures in the PCS required the reaggregation of expenditures, sometimes involving arbitrary allocations, from the institution's expenditure categories into the PCS categories. Such crossover procedures usually are not only quite elaborate and time consuming, but also they often result in information that can be misleading or inaccurate. A crossover from the Joint Accounting Group's expenditure categories, rather than requiring multiple allocations, usually involves only a simple addition or subtraction of an entire category or subcategory of expenditures. Use of these categories, therefore, will both simplify the crossover procedures and improve the accuracy and value of the data being reported in the PCS format.

3. HEFM describes the specific data elements and other accounting system capabilities needed to prepare the HEFM report formats. It will, therefore, aid the data provider in determining what is needed to ensure that the institution's accounting system is capable of providing those data needed to prepare the HEFM report formats.

4. HEFM provides additional detail and clarification for many of the definitions and accounting practices described in the Audit Guide. The HEFM definitions will give the data provider additional guidance in determining how to maintain and report comparable institutional financial data.

5. HEFM describes potential uses and limitations for the HEFM display formats that hopefully will result in more meaningful requests for information on the part of data users. This should alleviate some of the frustrations of data providers when asked to supply information that they feel will mislead, rather than enlighten, the user.

DATA USER

Data users are found at all levels (institutional, local, state, and federal) and include anyone who may have occasion to use higher education institutional financial data. Data users include staff persons who must supply information to support decisions, as well as the actual higher education decision makers. Data users also include persons interested in, and concerned with, the financial operations of higehr education, whether

2. The primary emphasis of the HEFM manual is on the "reporting" of financial data. Therefore, the manual suggests relatively gross aggregations of data. For many purposes, particularly those related to planning and management within the institution, much more detailed information will be required. However, it should be possible to relate this detailed information directly to the more aggregate HEFM data.

3. In the decision-making process, financial data must be related to nonfinancial data, to the objectives of the institution, and to externalities over which an institution often has no control. HEFM does not provide guidance as to how these functions are to be accomplished.

SECTION II

CHAPTER 3

UNDERSTANDING HIGHER EDUCATION'S FINANCIAL REPORTS

One of the major problems encountered in past efforts to effectively communicate higher education financial data has been a lack of understanding of the reports prepared in accordance with the practices and principles of nonprofit acccunting. This section of the Higher Education Finance Manual attempts to explain the basic concepts of higher education accounting and to describe the financial reports of higher education institutions in ways that will help readers better understand and more effectively use higher education financial information.

Two characteristics that have a major influence on the kind of reporting used in higher education are (1) the nonprofit nature of higher education institutions and (2) the unique flow of revenues in higher education.

Nonprofit nature of higher education--One of the most important factors affecting higher education financial data is the nonprofit nature of higher education institutions. Higher education institutions are created to carry out the functions of instruction, research, and public service rather than to produce profits. Although institutions have an obligation to use their resources as efficiently and effectively as possible in attaining their educational objectives, there is no obligation to show a surplus of revenues over expenditures every year. Naturally, the institution will want to be able to provide as much as possible for its future operating needs, and an accumulation of operating surpluses over the years

is one important source of funds for future needs. The user of higher education financial data, however, should focus not on profits and losses (as would users of profit sector financial data), but instead on the "uses" of institutional resources and the way in which these uses contribute to the attainment of the institution's objectives.

Flow of revenues--The second characteristic impacting upon higher education accounting and financial reports is the unique flow of revenues in higher education. In the profit sector each product is "purchased" by one consumer who pays at least the company's full cost of producing the product. In higher education the "products" (instruction, research, public service) are paid for by two or three sources of revenue, each one paying some portion of the total cost. Also, the persons or agencies providing the revenues are not necessarily the same persons or agencies that directly benefit from the products of higher education.

Although few, if any, persons would ever "give" money to a profit-seeking organization, donated monies are major sources of income for higher education institutions. Many gifts are donated with accompanying "restrictions" that stipulate how they are to be used by the institution. These restrictions usually are specified by the donor as a precondition for the acceptance of the funds by the institution and are legally binding. Funds are received also in return for goods or services that must be rendered to the donor. These funds also may be unrestricted funds (for example, student tuition), and in other cases very specific restrictions may have been placed on their use (e.g., federal research contracts).

This mixture of institutional funds, some restricted and some unrestricted, introduces to higher education financial reporting an additional dimension that doesn't exist in the profit sector. This dimension usually is referred to as the institution's "stewardship" responsibility (the legal responsibility of the institution to use restricted funds precisely for those purposes for which they were given). In order to show that the stewardship responsibility has been met, most higher education financial reports distinguish between restricted and unrestricted funds and detail the uses of restricted funds.

FUND ACCOUNTING--BASIC CONCEPTS AND REPORTING PRACTICES

A unique type of financial accounting, known as "fund accounting," has been developed in the nonprofit sector (and is used in higher education) for the maintenance and reporting of financial data. Fund accounting principles and practices were developed in order to adequately provide users both the information needed for planning and management and the information needed to disclose how well stewardship responsibilities have been met. Problems in understanding and using higher education financial reports often can be traced to a failure to understand the basic concepts of "fund accounting." This section should help the reader of financial reports by outlining these basic concepts and by describing several of the more important reporting practices used in the preparation of institutional financial reports.

Classification of accounts into fund groups--The basis for almost all fund accounting reports is the concept of "fund groups." A fund group is used to report resources that are available for, or restricted to, essentially the same purpose. Each fund group may include resources that are restricted to a particular purpose as well as unrestricted resources that the institution decides to use for the same purpose as the restricted funds in the group. The primary characteristic of fund groups is that all resources reported in each fund group are available for essentially the same purpose.

The "fund group" is the basic reporting entity in fund accounting--assets and liabilities are reported by fund group and the movement of institutional resources is reported into, out of, and between the various fund groups. There are six generally accepted "fund groups" for the reporting of higher education financial data:

Current Funds

Loan Funds

Endowment and Similar Funds

Annuity and Life Income Funds

Plant Funds

Agency Funds

These fund groups are defined in the DEFINITIONS section of this chapter.

Unrestricted, restricted, and designated funds--It was pointed out earlier that restrictions often are placed on the use of certain institutional funds. However, there are various types and degrees of restrictions.

Unrestricted funds are monies that the institution's management may use for any purpose it deems necessary. Restricted funds are given to the institution for a very specific purpose and must be used only for that purpose. Designated funds are restricted in a sense but actually are unrestricted funds. Designated funds are unrestricted funds for which the institution's governing board stipulates a specific use, thereby "restricting" them as far as the institution's administration is concerned. However, the governing board may change the designation at any time and redesignate the funds for some other purpose, so designated funds are shown in financial reports as a part of unrestricted funds.

One of the biggest problems in interpreting the meaning of "restricted" and "unrestricted" funds in financial reports is that there are several different types of restrictions that can be placed on funds and the same word "restricted" is used to refer to them all. It generally can be stated that any monies added directly to a fund group other than the Current Fund are "restricted." All unrestricted funds the institution receives must be reported first in the unrestricted Current Fund. Then they may be "designated" and transferred to another fund group. Misunderstanding arises because the "earnings" on the investment of restricted funds (for example, endowment funds) often are available for any use (that is, they are unrestricted). Therefore, financial reports usually distinguish between restricted funds and unrestricted funds within each fund group. The reader of financial reports should assume that the "unrestricted" funds other than the Current Fund are designated funds and

that the restricted funds are restricted to that fund group by the funding source. Earnings on the investment of funds usually are separately identified within each fund group and shown as unrestricted or restricted as to use.

Transfers and interfund borrowings--Accounting for the institution's resources in several fund groups is somewhat analogous to several distinct "businesses" operated by one manager--the institution. Therefore, it is not unusual for the institution to make transfers between fund groups whenever necessary and permissible. If the institution determines that one fund group needs additional resources in order to adequately perform its functions, the institution often will "borrow" them from the unrestricted funds of one of the other fund groups. If it is intended that the money be paid back to the lending fund group, the transaction is referred to as an interfund borrowing. Interfund borrowings are shown in financial reports as a "due to" (asset) in the borrowing fund group and as a "due from" (liability) in the lending fund group.

A second procedure used to provide funds to various fund groups is to take the money out of another fund group without paying it back. This type of transaction is known as a transfer. For reporting purposes, there are two types of transfers: nonmandatory transfers and mandatory transfers. A nonmandatory transfer is made at the discretion of the institution's governing board from the unrestricted funds of one fund group. A mandatory transfer (usually from the unrestricted funds of one fund group) is made to fulfill a legal obligation of the institution

in another fund group. For example, if funds are needed to meet debt obligations in the Plant Fund, unrestricted funds may be transferred from the Current Fund to the Plant Fund. This is a mandatory transfer. If the same kind of transfer is made with no attendant legal obligation, it would be reported as a nonmandatory transfer.

Current fund revenues--The accrual basis of accounting generally used in higher education stipulates that revenues are reported only when earned. Therefore all unrestricted gifts, grants, and so forth are reported as revenue as soon as they are accepted by the institution because nothing must be done to "earn" them. However, in the case of restricted funds the monies are not earned until all of the terms of the agreement under which they were given to the institution have been met. These terms are met only when the monies are expended in accordance with the restrictions placed on them. Thus, restricted funds are reported as "additions" when they are received (all "additions" are reported in the "Statement of Changes in Fund Balances") and reported as revenues only when expended. The term "revenues" is used only in the Current Fund and includes (1) all unrestricted monies accepted during the reporting period and (2) that portion of restricted funds expended for operating purposes during the reporting period.

Notes to financial statements--Although the inclusion of "notes" to the institution's financial statements is not unique to fund accounting, it is an important factor in the understanding of higher education's

financial reports. The significant accounting policies followed by the institution are described in a "notes" section at the end of the financial statements. The basis of reporting used by the institution (generally the accrual basis) is disclosed in the notes as well as a reference to the general principles of fund accounting. In addition to such general accounting policy statements, the notes may include also explanations of certain figures shown on the financial statements. It should be noted that the materiality of each item for a particular institution will determine whether or not it is described in the "notes" to the financial reports. Examples of explanatory notes include:

1. Valuation of Assets--The method of valuation used to record assets (either at cost or at fair market value) typically is disclosed in the explanatory notes.
2. Performance of Investment Portfolio--The notes set forth the total performance (yield, gains, and losses) of the institution's investment portfolio based on cost and market value.
3. Pledges Receivable--Pledges of gifts, including uncollected subscriptions, subscription notes, and estate notes, should be disclosed in the notes, if material, unless they are reported in the financial statements.
4. Interfund Borrowings--Except for temporary advances, usually up to one year, the terms of various interfund borrowings and a disclosure of repayments may be discussed in the notes.
5. Long-Term Debt--The notes generally disclose the composition of the institution's long-term debt. The terms of the various borrowings and the respective repayment schedules generally are shown as well as a disclosure of the "current" portion of long-term debt (that portion due within the current reporting period).

6. Donated Services--The method used to determine imputed values for significant amounts of donated services is disclosed in the notes.
7. Contracts in Progress--The notes generally will disclose the types and amounts of contracts in progress for the construction of new physical plant. Often the method used to finance new construction is disclosed also.

FUND ACCOUNTING--DEFINITIONS

The following definitions are intended to aid the user of higher education financial reports in better understanding the general terms used in fund accounting. Definitions of the data categories used in the Balance Sheet, the Statement of Changes in Fund Balances, and the Current Fund Source/Use Matrix are included in the chapters dealing with those particular reports.

Fund Groups:

1. Current Fund--This fund group is somewhat like a "checking account" for the institution, although certain differences do exist. It includes all of those resources used, or available for use, in carrying out those operations directly related to the institution's educational objectives. It also includes those monies associated with the operation of the institution's auxiliary enterprises. This fund group generally is shown in financial reports as two distinct subgroups--"Current Fund-Unrestricted" and "Current Fund-Restricted."

Unrestricted current funds are available for any purpose. Restricted current funds are restricted to a very specific aspect of the institution's current operations.

2. Loan Fund--This fund group consists of those resources that have been loaned or are available for loans to students, faculty, and staff. (It does not include loans made to the institution.) The unrestricted and restricted fund balances generally are shown separately in financial reports. Unrestricted funds in this fund group are monies that have been designated for loan purposes by the governing board. Restricted funds have been restricted for loan purposes by the funder.

3. Endowment and Similar Fund--This fund group includes funds whose principal is nonexpendable and that are intended to be invested to provide earnings for institutional use. Two methods of determining the earnings available for use currently are employed by higher education institutions. One method stipulates that only current yield (for example, ordinary income such as interest, dividends) on the investment of endowment funds may be used. The second method (known as the "total return concept") allows additionally for a portion of the capital gains of invested endowment funds to be used also. Both methods of determining expendable endowment earnings generally are accepted accounting practices--the institution's governing board generally decides which procedure is appropriate for its institution's particular needs. The Endowment and Similar Funds group is reported in three subgroups:

- Endowment Funds--Refers to those funds for which donors or other outside agencies have stipulated, as a condition of the gift, that the principal always be maintained inviolate. Only the earnings on the investment of these funds may be used.

- Term Endowment Funds--In this subgroup the principal also must be kept intact, except that upon the passage of a stated period of time or the happening of a particular event, all or a part of the principal may be expended. Once the term expires, the use of the funds may be subject to board designation or the ultimate use may have been stipulated in a prior time by the donor.

- Quasi-Endowment Funds (or funds functioning as endowment)--Funds that the governing board of the institution (rather than a donor or other outside agency) determines are to be retained and invested as endowment funds. Quasi-endowment funds generally are unrestricted funds that may be used or reclassified at the discretion of the governing board.

4. Annuity and Life Income Fund--This fund group includes all funds carrying a stipulation that the institution make payments to one or more specified beneficiaries. If the institution is obligated to pay the beneficiary a stipulated amount, the fund is classified as an annuity fund. If the institution agrees to pay only the income

earned by the assets of the fund or a stipulated percentage of its market value (as for a uni-trust), it is classified as a life income fund. Upon the death of the beneficiary, or at some agreed upon date, the principal of the annuity or life income fund becomes the property of the institution. It then is available for use at the discretion of the institution or in accordance with the terms of the agreement. Annuity funds and life income funds generally are maintained as two separate subgroups, but are combined for reporting purposes.

5. Plant Fund--Fund accounting reports the institution's physical plant assets in a separate fund group rather than reporting them as assets in several fund groups. The Plant Fund includes all of the institution's physical plant assets as well as the monies intended for the purpose of funding new construction or acquisitions, debt service on plant, and renewal and replacement reserves. The Plant Fund is reported in four subgroups:

   - Unexpended Plant Funds--Includes those funds that are available for new construction, renovations, and acquisition of physical properties but which are, as of the date of reporting, unexpended.

   - Funds for Renewal and Replacement--Includes funds set aside for the renovation and improvement of institutional properties. This subgroup does not include those funds used for the ordinary maintenance and repair of institutional properties--such monies are reported in the Current Fund. Funds for renewal and replacement sometimes are thought of as a form of funding in lieu of depreciation.

- Funds for Retirement of Indebtedness--Funds set aside to pay off the debt on institutional properties (both principal and interest charges).

- Investment in Plant--This subgroup is used to report the amount of institutional funds invested in physical plant facilities and the amount of outstanding debt on physical plant.

6. Agency Fund--The institution often acts as the fiscal agent for funds it does not own. In such cases the institution usually is providing accounting services to the organization or person(s) to which the monies belong. All funds the institution holds as custodian or fiscal agent for student organizations, individual students, faculty members, and so forth are reported in this fund group. However, when agency funds are not a material item, they may be reported as an element in the Current Fund. Whenever the purpose of a particular report or financial statement is to disclose the total resources available for use by the institution, agency funds are excluded or simply footnoted.

Other Fund Accounting Terms:

- Accrual Basis--The basis of accounting and reporting under which (1) revenues are reported when they are earned, even though the funds may not be received until a subsequent reporting period and (2) expenditures are reported when the materials or services

are received even though payments for them may not have been made as of the date of the financial report. The accrual basis is contrasted with the "cash basis" in which revenues are reported when the cash is received or made available to the institution and expenditures are reported when the payment has been disbursed. Generally accepted accounting practice in higher education stipulates that financial reports be prepared on the accrual basis.

- Addition--This term is used in financial reporting for an addition of new institutional resources in any fund group. It does not include funds that are moved out of one fund group and into another (that is, a transfer).

- Debt Service--Those funds used in connection with the payment of institutional debt. Includes principal payments, interest charges, transfers to sinking funds to ensure future principal and interest payments, transfers to reserves for the renewal and replacement of the facilities, trustees' service charges, legal expenses, and other items related to indebtedness.

- Deduction--Refers to those funds used out of a particular fund group during the reporting period. It does not include funds that are moved out of one fund group and into another (that is, a transfer).

- Expenditures--This term is used in reporting charges to both the Current Fund and the Plant Fund. Expenditures in the Current Fund are made for the general operation of the institution. Expenditures in the Plant Fund are made for additions to, or improvement in, the institution's physical plant.

- Educational and General--This term is used to describe all operations related to the institution's educational objectives. All activities associated with instruction, research, public service, academic support, student services, and institutional support are included in this classification. Excluded are expenditures for auxiliary enterprises and hospitals. In financial reports, the term "Educational and General" represents an aggregation of functional expenditure categories.

- Functional Classification--The categorization of institutional expenditures according to the purpose for which the costs are incurred. The functional categories generally recommended for Current Fund expenditures (see Report of the Joint Accounting Group, AICPA, NACUBO, NCHEMS, 1974) are: instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, scholarships and fellowships, auxiliary enterprises, hospitals, and independent operations.

- Fund Balance--The difference between the assets and liabilities of a particular fund group. This figure may be either positive

or negative. Financial reports generally differentiate between the unrestricted and restricted portions of each fund group's fund balance.

- Object Classification--The categorization of institutional expenditures according to the type of goods or services received in return for the expenditures. Some examples of object classifications include personal services, supplies, travel, fuel, and equipment.

- Revenue--This term is used only in reference to the Current Funds group. It is defined on page 27.

- Transfer--The movement of funds from one fund group to another fund group with no intention of paying back the donor fund group. (A more detailed description of transfers is provided on page 26.)

SECTION III

This section of the Higher Education Finance Manual describes a set of financial report formats that will facilitate the reporting of higher education financial data for planning and management purposes. In addition to a description of the report formats, definitions of the accounting terms related to each format and a discussion of the uses and limitations of each format are included in this section.

It should be emphasized that the report formats shown in the following chapters are exemplary and that the level of detail used to display financial data in each report format is not necessarily essential or useful for all planning and management purposes. For any particular need, the data user should make his or her own determination of what information is required and ask for the level of data detail in each report format needed to satisfy that requirement. In some instances, the "materiality" of a particular piece of information will determine whether or not it should be separately itemized in a financial report. However, if a comparison of the data with data from similar institutions is to be conducted, a specific set of data categories may have to be used with the requirement that all categories be reported, even those showing nonmaterial items.

CHAPTER 4

BALANCE SHEET

The balance sheet shows a reading of the institution's financial condition at a particular point in time. Although many people are familiar with balance sheets as they are prepared for the profit-seeking sector, the balance sheets prepared for higher education are complicated by the necessity for reporting in accordance with the principles of fund accounting. A balance sheet for an institution of higher education is formatted so that assets and liabilities are shown separately for each fund group. This separation of assets and liabilities by fund groups may be shown in one of two different ways. The layered format is one in which a series of "mini-balance sheets" are prepared for each fund group and displayed in layers (one on top of the other). The columnar format shows the assets and liabilities associated with each fund group side by side in the appropriate fund groupings.

LAYERED BALANCE SHEET

The Layered Balance Sheet is comprised of a series of "mini-balance sheets," one for each major fund group, displayed in a series of succeeding layers (see Figure 1). Each layer is a self-balancing statement of the assets, liabilities, and fund balance for that particular fund group, and this series of mini-balance sheets comprise the institutional balance sheet.

One of the advantages of the Layered Balance Sheet, as seen in Figure 1, is that it usually is prepared with the prior year's figure for each item displayed adjacent to the current year's figure. For purposes of planning and management this format provides the user with easily obtainable trend data for every item shown on the balance sheet. Layered Balance Sheets can be prepared showing comparative data for each item for more than two years or a comparison of a series of Layered Balance Sheets prepared for successive years can be conducted to show even longer term trends.

The primary advantage of the layered format for the balance sheet is that it tends to focus the user's attention more directly on individual fund groups, which emphasizes the intended, and the legally restricted, uses of the institution's resources. However, this also can be considered a limitation because it is difficult to get a total institutional picture using the layered format.

FIGURE 1*

SAMPLE EDUCATIONAL INSTITUTION

Balance Sheet
June 30, 19—
with comparative figures at June 30, 19—

Assets	Current year	Prior year
Current funds:		
Unrestricted:		
Cash	$ 210,000	110,000
Investments	450,000	360,000
Accounts receivable, less allowance of $18,000 both years	228,000	175,000
Inventories, at lower of cost (first-in, first-out basis) or market	90,000	80,000
Prepaid expenses and deferred charges	28,000	20,000
Total unrestricted	1,006,000	745,000
Restricted:		
Cash	145,000	101,000
Investments	175,000	165,000
Accounts receivable, less allowance of $8,000 both years	68,000	160,000
Unbilled charges	72,000	—
Total restricted	460,000	426,000
Total current funds	1,466,000	1,171,000
Loan funds:		
Cash	30,000	20,000
Investments	100,000	100,000
Loans to students, faculty, and staff, less allowance of $10,000 current year—$9,000 prior year	550,000	382,000
Due from unrestricted current funds	3,000	—
Total loan funds	683,000	502,000
Endowment and similar funds:		
Cash	100,000	101,000
Investments	13,900,000	11,800,000
Total endowment and similar funds	14,000,000	11,901,000
Annuity and life income funds:		
Annuity funds:		
Cash	55,000	45,000
Investments	3,260,000	3,010,000
Total annuity funds	3,315,000	3,055,000
Life income funds:		
Cash	15,000	15,000
Investments	2,045,000	1,740,000
Total life income funds	2,060,000	1,755,000
Total annuity and life income funds	$5,375,000	4,810,000

Liabilities and Fund Balances	Current year	Prior year
Current funds:		
Unrestricted:		
Accounts payable	$ 125,000	100,000
Accrued liabilities	20,000	15,000
Students' deposits	30,000	35,000
Due to other funds	158,000	120,000
Deferred revenue	30,000	20,000
Fund balance	643,000	455,000
Total unrestricted	1,006,000	745,000
Restricted:		
Accounts payable	14,000	5,000
Fund balances	446,000	421,000
Total restricted	460,000	426,000
Total current funds	1,466,000	1,171,000
Loan funds:		
Fund balances:		
U.S. Government grants refundable	50,000	33,000
University funds:		
Restricted	483,000	369,000
Unrestricted	150,000	100,000
Total loan funds	683,000	502,000
Endowment and similar funds:		
Fund balances:		
Endowment	7,800,000	6,740,000
Term endowment	3,840,000	3,420,000
Quasi-endowment-unrestricted	2,360,000	1,741,000
Total endowment and similar funds	14,000,000	11,901,000
Annuity and life income funds:		
Annuity funds:		
Annuities payable	2,150,000	2,300,000
Fund balances	1,165,000	755,000
Total annuity funds	3,315,000	3,055,000
Life income funds:		
Income payable	5,000	5,000
Fund balances	2,055,000	1,750,000
Total life income funds	2,060,000	1,755,000
Total annuity and life income funds	$5,375,000	4,810,000

Continued

SAMPLE EDUCATIONAL INSTITUTION

Balance Sheet, Continued

Assets, Continued	Current year	Prior year
Plant funds:		
Unexpended:		
Cash	$ 275,000	410,000
Investments	1,285,000	1,580,000
Due from unrestricted current funds	150,000	120,000
Total unexpended	1,710,000	2,120,000
Renewal and replacement:		
Cash	5,000	4,000
Investments	150,000	286,000
Deposits with trustees	100,000	90,000
Due from unrestricted current funds	5,000	–
Total renewal and replacement	260,000	380,000
Retirement of indebtedness:		
Cash	50,000	40,000
Deposits with trustees	250,000	253,000
Total retirement of indebtedness	300,000	293,000
Investment in plant:		
Land	500,000	500,000
Land improvements	1,000,000	1,110,000
Buildings	25,000,000	24,060,000
Equipment	15,000,000	14,200,000
Library books	100,000	80,000
Total investment in plant	41,600,000	39,950,000
Total plant funds	43,870,000	42,743,000
Agency funds:		
Cash	50,000	70,000
Investments	60,000	20,000
Total agency funds	$ 110,000	90,000

Liabilities and Fund Balances, Continued	Current year	Prior year
Plant funds:		
Unexpended:		
Accounts payable	$ 10,000	–
Notes payable	100,000	–
Bonds payable	400,000	–
Fund balances:		
Restricted	1,000,000	1,860,000
Unrestricted	200,000	260,000
Total unexpended	1,710,000	2,120,000
Renewal and replacement:		
Fund balances:		
Restricted	25,000	180,000
Unrestricted	235,000	200,000
Total renewal and replacement	260,000	380,000
Retirement of indebtedness:		
Fund balances:		
Restricted	185,000	125,000
Unrestricted	115,000	168,000
Total retirement of indebtedness	300,000	293,000
Investment in plant:		
Notes payable	790,000	810,000
Bonds payable	2,200,000	2,400,000
Mortgages payable	400,000	200,000
Net investment in plant	38,210,000	36,540,000
Total investment in plant	41,600,000	39,950,000
Total plant funds	43,870,000	42,743,000
Agency funds:		
Deposits held in custody for others	110,000	90,000
Total agency funds	$ 110,000	90,000

See accompanying Summary of Significant Accounting Policies and Notes to Financial Statements

*Audits of Colleges and Universities, American Institute of Certified Public Accountants, 1973. pp. 60-63.

COLUMNAR BALANCE SHEET

The Columnar Balance sheet displays the institution's assets, liabilities, and fund balances side by side in separate columns for each fund group. A "total" column gives aggregate totals for each item of assets, liabilities, and fund balances (see Figure 2).

The primary strength of the Columnar Balance Sheet is that the format displays assets, liabilities, and fund balances "spread" across the various fund groups, which provides users a total institutional picture. The columnar format allows the user to look at the total for a particular item (for example, cash) and to see immediately where the item is accounted for among the various fund groups. This gives the user the opportunity to look at the total picture for a particular institutional resource and then to focus attention on the extent and the degree of the restrictions placed upon its use.

In using the Columnar Balance Sheet one should be careful not to place undue importance on the "total" column. This column should be used only as a reference point for looking at the distribution of institutional resources among fund groups. If the user looks at a total without taking into consideration the restrictions placed upon its use, invalid and incorrect conclusions will be drawn from the data. For example, the analyst, after looking at the figure for total cash, must look also to see how the cash is distributed among the various fund groups and whether the cash is restricted or unrestricted within each group.

FIGURE 2

COLUMNAR BALANCE SHEET
(In thousands of dollars)

	Current Funds		Loan Funds	Endowment & Similar Funds	Annuity & Life Income Funds	Plant Funds				Total (All Funds)
	Unrestricted	Restricted				Unexpended	Renewal & Replacement	Retirement of Indebtedness	Investment in Plant	
Assets										
Cash	210	145	30	100	70	275	5	50		885
Investments	450	175	100	13,900	5,305	1,285	150			21,365
Accounts Receivable	228	68								296
Inventories, Prepaid Expenses, Etc.	118	72					100	250		540
Notes Receivable			550							550
Institutional Plant									41,600	41,600
Interfund Borrowing - Due From (To)	(158)		3			150	5			0
Total Assets	848	460	683	14,000	5,375	1,710	260	300	41,600	65,236
Liabilities										
Accounts Payable & Accrued Liability	145	14				10				169
Student Deposits	30									30
Deferred Revenues	30									30
Notes Payable			50			100			790	940
Contracts Payable					2,155					2,155
Mortgages Payable									400	400
Bonds Payable						400			2,200	2,600
Total Liabilities	205	14	50	0	2,155	510	0	0	3,390	6,324
Fund Balances										
For Current Operations - Unrestricted	643									643
For Current Operations - Restricted		446								446
Board Designated Funds			150	2,360		200	235	115		3,060
Restricted to Other Than Current Purposes			483	11,640	3,220	1,000	25	185		16,553
Net Investment in Institutional Plant									38,210	38,210
Total Fund Balances	643	446	633	14,000	3,220	1,200	260	300	38,210	58,912
Total Liabilities & Fund Balances	848	460	683	14,000	5,375	1,710	260	300	41,600	65,236

BALANCE SHEET--USES AND LIMITATIONS

The value of an institutional balance sheet for analytical purposes is most apparent when the user can look at a series of balance sheets for successive years. Such "trend" information can be more valuable than any particular item on the balance sheet for any one year. In most instances, the balance sheet will be used along with other institutional financial statements. However, there are certain questions that can be answered using primarily balance sheet data. The following questions are illustrative of some possible uses of balance sheet data:

1. What is the institution's liquidity position (that is, how easily could the institution liquidate its short-term assets if it became necessary to do so in order to cover short-term liabilities)?

   Answer: This question is not easy to answer in higher education because of the restrictions placed upon many of the institution's resources. Although certain assets might be "short-term" in the sense that they can be converted to cash within a year (the usual definition of liquidity), the proceeds resulting from any such conversion may be restricted to a very specific use and not available to meet the short-term liabilities that need to be covered. Therefore, although an estimate of liquidity can be found by comparing such typical short-term assets as cash, short-term investments, and accounts receivable to such short-term liabilities as accounts payable and student deposits, the restricted nature of some assets also must be analyzed as they relate to particular liabilities before any meaningful measure of liquidity can be determined.

2. What is the extent and the nature of the institution's long-term debt?

Answer: The answer to this question can be found by looking at the Columnar Balance Sheet for long-term debt items (that is, Notes Payable, Contracts Payable, Mortgages Payable, Bonds Payable). The nature of the various amounts of debt is shown by the particular fund group in which each portion of the total is reported. However, a more detailed analysis of the specifics of the institution's borrowings is needed in order to fully understand the nature and the extent of the institution's debt.

Probably the most important information that can be obtained from an institutional balance sheet relates to "fund balances." A "fund balance" is the difference between the fund group's total assets and its liabilities. This figure represents those institutional resources available for the particular uses associated with that fund group. The following questions are representative of those that might be asked about an institution's fund balances:

1. What is the extent of those institutional resources available only for current operations in succeeding operating periods?

Answer: The item "For Current Operations-Restricted" tells the user that these resources are available in succeeding operating periods for certain specific current operations. However, this does not mean

that all of these resources are available in the next operating period. Restrictions may have been placed upon a portion of these resources which stipulate that they be used over a period of several years. The item "For Current Operations-Unrestricted" is another set of resources available for current operations. Also "Board Designated Funds" may be available since the governing board can make the determination as to the use of these funds.

2. What portion of the institution's unrestricted resources have been "designated" by the institution's governing board for specific purposes? For what purposes were these resources designated?

Answer: The answer to this question can be found by looking at the fund balance item "Board Designated Funds" on the Columnar Balance Sheet. The specific purpose for which they have been designated is indicated by the fund group in which they are reported. Theoretically, all designated funds can be redesignated by the governing board, if necessary, for use in the Current Fund or in any other fund group. In those cases where the designation is an investment of funds, such as a designation to the Endowment Fund, this ability to redesignate funds is true in a practical sense as well. However, if the funds have been designated for a specific use, such as the payment of debt in the Plant Fund, the funds will not necessarily be available for redesignation to another fund group.

3. What is the extent of those institutional funds restricted to uses other than current operations? For what purposes are they restricted?

Answer: The item "Restricted to Other Than Current Purposes" on the Columnar Balance Sheet shows those institutional resources that have been restricted as to use by the donor. The fund group "columns" in which such resources are reported indicate the type of restriction that has been placed upon them.

In addition to the questions listed above, questions also could be answered with the Balance Sheet about the amount of pledges receivable and the size of the endowment relative to current operating funds. As described earlier, the Balance Sheet ordinarily will be used in conjunction with other institutional financial statements, rather than alone, and most questions will not be as simple and straightforward as those described above. However, the answers to most questions, even the more complex ones, will require the same basic information elements described in the answers above and it will be the job of the user to determine which of those elements are needed and how they should be used to answer the tougher questions posed by most analyses.

BALANCE SHEET--DEFINITIONS

The following definitions have been prepared as an aid (1) to the user in understanding the information displayed in a balance sheet and (2) to the data provider in the preparation of a balance sheet. The major emphasis of these definitions is on providing clearly understandable definitions of those items shown on balance sheets rather than on providing a comprehensive set of accounting procedures for the preparation of balance sheets. More

detailed accounting procedures related to the balance sheet can be found in Audits of Colleges and Universities (AICPA: 1973) and in the accounting principles and practices section of the Administrative Services manual (NACUBO: 1974).

Assets

1. Cash--Includes the cash on hand, petty cash, certificates of deposit, and cash in bank accounts, associated with each fund group. Does not include short-term investments.

2. Investments--Includes marketable securities, real estate, patents, copyrights, royalties, participations, and so forth. Investments purchased are reported in the financial statements at cost and investments received as gifts at the fair market or appraised value at the date of gift, unless there has been an impairment of value not considered to be temporary. (As a permissible alternative, investments, exclusive of physical plant, may be reported in the financial statements at current market value or fair value, provided this basis is used for all investments of all funds.) If the institution records investments on the balance sheet at cost, a "note" to the financial statement must be included to show market value. Investments may be categorized further as securities, real estate, and other investments.
   - Securities--Includes bonds, notes, preferred stocks, and common stocks.

- Real Estate--Includes real property in which funds are invested for the purpose of producing income (usually a part of the Endowment Fund). Such properties may be acquired by gift, purchase, or foreclosure of mortgage notes.

3. Pledges Receivable--Pledges may be reported in the Balance Sheet as a receivable, if material, and if an estimated net realizable value for such pledges can be computed which includes the present value of long-term pledges as well as reductions for an allowance for uncollectable pledges. Pledges of gifts, including uncollected subscriptions, subscription notes, and estate notes, should be disclosed in the notes unless they are reported in the financial statements. The notes to the financial statements should disclose the gross amounts by time periods over which the pledges are to be collected and related restrictions, if any, as to use.

4. Accounts Receivable--Includes all amounts owed the institution, generally on open account, and limited to uncollected amounts of completed sales of goods and services. Governmental appropriations and advances that are subject to release by a governmental officer for institutional use should be shown here and not under "cash." Accounts receivable are shown at face value less an allowance for doubtful accounts.

5. Notes Receivable--Includes all amounts owed on promissory notes from debtors. Notes receivable for loans should be carried in

the Loan Funds group at face value less allowance for doubtful loans. Provision for doubtful loans should be charged to the equity account of the specific loan fund.

6. Inventories--Includes merchandise for sale and supplies and stocks in stores. Examples of the latter are office supplies, fuel, building supplies, and goods not yet charged as expense but carried in stock in general storerooms for future requisition or sale. Items that have been charged as expense should not reappear as inventory, even though they may be on hand in departmental storerooms or offices. Merchandise for sale includes such items as inventories of student stores, university presses, and food service.

7. Prepaid Expenses and Deferred Charges--Includes that portion of operating expenditures properly chargeable in a period subsequent to the date of the Balance Sheet.

8. Interfund Borrowing Due From (to) Other Funds--Represents the amounts of funds loaned temporarily between fund groups (for example, unrestricted current funds loaned to the Plant Fund). This category in the Columnar Balance Sheet shows a positive amount (or asset) in the "lending" fund group and a negative amount in brackets (or a liability) in the "borrowing" fund group. In the Layered Balance Sheet, a "due from" is shown as an asset in the "lending" fund group and a "due to" is shown as a liability in the "borrowing" fund group.

Liabilities

1. Accounts Payable and Accrued Expenses--Represents liabilities for goods received and other expenses incurred for which disbursements have not been made as of the date of the report. Payrolls due and unpaid are included in this category in the Current Fund. Amounts deducted from payrolls and not yet forwarded to proper agencies, such as income taxes withheld, social security taxes, and retirement annuity premiums are shown here.

2. Notes, Bonds, and Mortgages Payable--Represents liabilities for outstanding notes, bonds, and mortgages.

3. Deposits--Includes receipts for various purposes which an institution may be required to repay in whole or in part. Examples are deposits for breakage, room rental contracts, keys, library books, and reservations for admission to the institution or to the residence halls.

4. Deferred Revenues--Includes payments made to the institution in advance of the reporting period to which they apply for services to be rendered in a subsequent reporting period. Examples are tuition, fees, and room rentals paid in advance of the fiscal period to which they apply.

5. Annuities Payable--Includes the present value of the aggregate liability for annuities payable in the Annuity Funds based upon acceptable life expectancy tables. When a gift is received the

present value of the annuities payable is credited to the liability account and the remainder to the fund balance. Periodically an adjustment is made between the liability and the fund balance to reflect the recomputation of the liability based on the revised life expectancy.

Fund Balances (Layered Balance Sheet only)

1. Unrestricted Current Funds Balance--The unrestricted fund balance in the Current Fund represents the net accumulation over the years of the excess of unrestricted current funds revenues over current funds expenditures and transfers. This amount is available for future operating purposes or for any other use approved by the governing board of the institution. There will be a negative fund balance if cumulative expenditures and transfers have exceeded revenues.

2. Restricted Current Funds Balance--Represents the unexpended balances of funds restricted by donors or other outside agencies to specific operating purposes. These funds originate from income on restricted endowment funds, gifts from donors who have placed limitations on their use, and grants from private or governmental sources specifically for research, training, and so forth. Since restricted current funds are reported as "revenues" only to the extent expended, this item on the Balance Sheet consists of those restricted funds available for expenditure in future reporting periods.

3. Loan Funds Balance--The fund balance section should display separately the unrestricted and restricted portions of the Loan Funds balance. The only unrestricted funds in the Loan Funds group are those unrestricted funds designated by the governing board to function as loan funds. Since action of the governing board at some future date may require that the funds be returned to the Current Fund or transferred to another fund group, the unrestricted fund balance should be shown separately from the restricted fund balance.

4. Endowment and Similar Funds Balance--Separate fund balances should be identified for Endowment Funds, Term Endowment Funds, and Quasi-Endowment Funds. The fund balance of quasi-endowment funds usually is considered to be unrestricted in that it may be transferred between fund groups. However, quasi-endowment funds actually may be restricted as to use within a particular fund group. The balance of term endowment funds cannot be transferred out of this fund group until the agreed upon time period expires. At such a time they may be transferred out of the Endowment and Similar Funds group. Term endowment funds also may be either restricted or unrestricted as to use.

5. Annuity Funds Balance--A fund balance will exist in the Annuity Funds whenever there is an excess of assets over liabilities (which must include an actuarial liability for annuities payable). All fund balances of the Annuity Funds should be considered restricted funds.

6. Life Income Funds Balance--A fund balance will exist whenever there is an excess of assets over liabilities. All fund balances of Life Income Funds should be considered restricted funds.

7. Unexpended Plant Funds--Fund balances of this Plant Funds subgroup represent those unexpended resources that have been set aside for the purchase or construction of physical plant in excess of associated liabilities. Restricted plant funds balances are shown separately from those unrestricted fund balances that have been designated for plant purposes by the governing board.

8. Funds for Renewal and Replacement--Fund balances of this Plant Funds subgroup represent unexpended resources held for the renewal and replacement of physical plant. The fund balance should be subdivided between unrestricted resources designated by the governing board for renewal and replacement purposes and resources restricted to such purposes, including fund balances arising from agreements with outside agencies such as trustees under bond indentures and restricted gifts, grants, and governmental appropriations.

9. Funds for Retirement of Indebtedness--Fund balances of this Plant Funds subgroup represent those resources held for the retirement of, and the interest on, the debt owed on the institution's physical plant. It includes sinking funds established under bond indentures, mortgage amortization payments accumulated but

not yet due, and other resources accumulated for interest and debt retirement. Fund balances should be subdivided between those unrestricted resources designated by the governing board for debt retirement purposes and restricted resources.

10. Net Investment in Plant--The net investment in plant is the total of institutional funds (for example, gifts, appropriations) that have been invested in physical facilities. It is, in short, the institution's "paid for" plant facilities.

Fund Balances (Columnar Balance Sheet only)

1. For Current Operations-Unrestricted and For Current Operations-Restricted--These two categories represent that portion of the excess of assets over liabilities available for the support of the current operations of the institution. The restricted fund balance is restricted to specific operating purposes, while the unrestricted balance is available for any operating purpose.

2. Board Designated Funds--This category represents that portion of fund balances designated by the institution's governing board for specified purposes.

3. Restricted to Other than Current Operations--This category represents those fund balances that have been restricted by the donors for purposes other than the support of current operations.

These restrictions are legally binding and cannot be circumvented, even by the governing board of the institution. Included in this category are the restricted fund balances of all fund groups, except the Current Fund.

4. Net Investment in Institutional Plant--The net investment in plant is the total of institutional funds (for example, gifts, appropriations) that have been invested in physical facilities. It is, in short, the institution's "paid for" plant facilities.

PROCEDURES FOR PREPARING THE COLUMNAR BALANCE SHEET

The instructions for preparing the Columnar Balance Sheet are based on the Layered Balance Sheet, and accompanying figures, shown in Figure 1. It is assumed that the Layered Balance Sheet is prepared in accordance with the principles and procedures outlined in Audits of Colleges and Universities (AICPA: 1973). Figure 1 is shown again to enable the reader to follow the instructions more readily. These instructions are given for preparing the Columnar Balance Sheet shown in Figure 3.

FIGURE 1*

SAMPLE EDUCATIONAL INSTITUTION

Balance Sheet
June 30, 19—
with comparative figures at June 30, 19—

Assets	Current year	Prior year	Liabilities and Fund Balances	Current year	Prior year
Current funds:			**Current funds:**		
Unrestricted:			Unrestricted:		
Cash	$ 210,000	110,000	Accounts payable	$ 125,000	100,000
Investments	450,000	360,000	Accrued liabilities	20,000	5,000
Accounts receivable, less allowance of $18,000 both years	228,000	175,000	Students' deposits	30,000	35,000
Inventories, at lower of cost (first-in, first-out basis) or market	90,000	80,000	Due to other funds	158,000	120,000
Prepaid expenses and deferred charges	28,000	20,000	Deferred revenue	30,000	20,000
			Fund balance	643,000	455,000
Total unrestricted	1,006,000	745,000	Total unrestricted	1,006,000	745,000
Restricted:			Restricted:		
Cash	145,000	101,000	Accounts payable	14,000	5,000
Investments	175,000	165,000	Fund balances	446,000	421,000
Accounts receivable, less allowance of $8,000 both years	68,000	160,000			
Unbilled charges	72,000	—			
Total restricted	460,000	426,000	Total restricted	460,000	426,000
Total current funds	1,466,000	1,171,000	Total current funds	1,466,000	1,171,000
Loan funds:			**Loan funds:**		
Cash	30,000	20,000	Fund balances:		
Investments	100,000	100,000	U.S. Government grants refundable	50,000	33,000
Loans to students, faculty, and staff, less allowance of $10,000 current year—$9,000 prior year	550,000	382,000	University funds:		
			Restricted	483,000	369,000
			Unrestricted	150,000	100,000
Due from unrestricted current funds	3,000	—			
Total loan funds	683,000	502,000	Total loan funds	683,000	502,000
Endowment and similar funds:			**Endowment and similar funds:**		
Cash	100,000	101,000	Fund balances:		
Investments	13,900,000	11,800,000	Endowment	7,800,000	6,740,000
			Term endowment	3,840,000	3,420,000
			Quasi-endowment-unrestricted	2,360,000	1,741,000
Total endowment and similar funds	14,000,000	11,901,000	Total endowment and similar funds	14,000,000	11,901,000
Annuity and life income funds:			**Annuity and life income funds:**		
Annuity funds:			Annuity funds:		
Cash	55,000	45,000	Annuities payable	2,150,000	2,300,000
Investments	3,260,000	3,010,000	Fund balances	1,165,000	755,000
Total annuity funds	3,315,000	3,055,000	Total annuity funds	3,315,000	3,055,000
Life income funds:			**Life income funds:**		
Cash	15,000	15,000	Income payable	5,000	5,000
Investments	2,045,000	1,740,000	Fund balances	2,055,000	1,750,000
Total life income funds	2,060,000	1,755,000	Total life income funds	2,060,000	1,755,000
Total annuity and life income funds	$5,375,000	4,810,000	Total annuity and life income funds	$5,375,000	4,810,000

Continued

SAMPLE EDUCATIONAL INSTITUTION

Balance Sheet, Continued

Assets, Continued	Current year	Prior year
Plant funds:		
Unexpended:		
Cash	$ 275,000	410,000
Investments	1,285,000	1,590,000
Due from unrestricted current funds	150,000	120,000
Total unexpended	1,710,000	2,120,000
Renewal and replacement:		
Cash	5,000	4,000
Investments	150,000	286,000
Deposits with trustees	100,000	90,000
Due from unrestricted current funds	5,000	–
Total renewal and replacement	260,000	380,000
Retirement of indebtedness:		
Cash	50,000	40,000
Deposits with trustees	250,000	253,000
Total retirement of indebtedness	300,000	293,000
Investment in plant:		
Land	500,000	500,000
Land improvements	1,000,000	1,110,000
Buildings	25,000,000	24,060,000
Equipment	15,000,000	14,200,000
Library books	100,000	80,000
Total investment in plant	41,600,000	39,950,000
Total plant funds	43,870,000	42,743,000
Agency funds:		
Cash	50,000	70,000
Investments	60,000	20,000
Total agency funds	$ 110,000	90,000

Liabilities and Fund Balances, Continued	Current year	Prior year
Plant funds:		
Unexpended:		
Accounts payable	$ 10,000	–
Notes payable	100,000	–
Bonds payable	400,000	–
Fund balances:		
Restricted	1,000,000	1,860,000
Unrestricted	200,000	260,000
Total unexpended	1,710,000	2,120,000
Renewal and replacement:		
Fund balances:		
Restricted	25,000	180,000
Unrestricted	235,000	200,000
Total renewal and replacement	260,000	380,000
Retirement of indebtedness:		
Fund balances:		
Restricted	185,000	125,000
Unrestricted	115,000	168,000
Total retirement of indebtedness	300,000	293,000
Investment in plant:		
Notes payable	790,000	810,000
Bonds payable	2,200,000	2,400,000
Mortgages payable	400,000	200,000
Net investment in plant	38,210,000	36,540,000
Total investment in plant	41,600,000	39,950,000
Total plant funds	43,870,000	42,743,000
Agency funds:		
Deposits held in custody for others	110,000	90,000
Total agency funds	$ 110,000	90,000

See accompanying Summary of Significant Accounting Policies and Notes to Financial Statements

*Audits of Colleges and Universities, American Institute of Certified Public Accountants, 1973. pp. 60-63.

FIGURE 3

COLUMNAR BALANCE SHEET
(In thousands of dollars)

	Current Funds		Loan Funds	Endowment & Similar Funds	Annuity & Life Income Funds	Plant Funds				Total (All Funds)
	Unrestricted	Restricted				Unexpended	Renewal & Replacement	Retirement of Indebtedness	Investment in Plant	
Assets										
1 Cash	210	145	30	100	70	275	5	50		885
2 Investments	450	175	100	13,900	5,305	1,285	150			21,365
3 Accounts Receivable	228	68								296
4 Inventories, Prepaid Expenses, Etc.	118	72					100	250		540
5 Notes Receivable			550							550
6 Institutional Plant									41,600	41,600
7 Interfund Borrowing - Due From (To)	(158)		3			150	5			0
8 Total Assets	848	460	683	14,000	5,375	1,710	260	300	41,600	65,236
Liabilities										
9 Accounts Payable & Accrued Liability	145	14				10				169
10 Student Deposits	30									30
11 Deferred Revenues	30									30
12 Notes Payable			50			100			790	940
13 Contracts Payable					2,155					2,155
14 Mortgages Payable									400	400
15 Bonds Payable						400			2,200	2,600
16 Total Liabilities	205	14	50	0	2,155	510	0	0	3,390	6,324
Fund Balances										
17 For Current Operations - Unrestricted	643									643
18 For Current Operations - Restricted		446								446
19 Board Designated Funds			150	2,360		200	235	115		3,060
20 Restricted to Other Than Current Purposes			483	11,640	3,220	1,000	25	185		16,553
21 Net Investment in Institutional Plant									38,210	38,210
22 Total Fund Balances	643	446	633	14,000	3,220	1,200	260	300	38,210	58,912
23 Total Liabilities & Fund Balances	848	460	683	14,000	5,375	1,710	260	300	41,600	65,236

INSTRUCTIONS:

Line 1--Include the cash accounts shown in all fund groups, both Restricted and Unrestricted.

Example:				
	C.F. - UR	=	210	
	C.F. - R	=	145	
	Loan	=	30	
	Endowment	=	100	
	Annuity	=	55	
	L.I.	=	15	
	Plt. - Unexp.	=	275	
	Plt. - R & R	=	5	
	Plt. - RoI	=	50	
	Total	=	885	= Cash

Line 2--Include investments of the Current Fund (both Restricted and Unrestricted), investments of Loan Funds, investments of the Endowment and Similar Funds group, investments of Plant Funds-Unexpended, investments of Plant Funds-Renewal and Replacement, and investments of Annuity and Life Income Funds groups.

Example:				
	C.F. - UR	=	450	
	C.F. - R	=	175	
	Loan	=	100	
	Endowment	=	13,900	
	Plt. - Unexp.	=	1,285	
	Plt. - R & R	=	150	
	Annuity	=	3,260	
	L.I.	=	2,045	
	Total	=	21,365	= Investments

Line 3--Include accounts receivable of the Current Fund (Restricted and Unrestricted).

Example:

C.F. - UR	=	228	
C.F. - R	=	68	
Total	=	296	= Accounts Receivable

Line 4--Include inventories (Current Fund-Unrestricted), prepaid expenses and deferred charges (Current Fund-Unrestricted, unbilled charges (Current Fund-Restricted), and deposits with trustees (Plant Fund-R & R and RoI).

Example:

C.F. - UR	=	90	
C.F. - UR	=	28	
C.F. - R	=	72	
Plt. - R & R	=	100	
Plt. - RoI	=	250	
Total	=	540	= Inventories, Prepaid Expenses, Etc.

Line 5--Include notes receivable from the Loan Funds group.

Example: Loan - 550 = Notes Receivable

Line 6--Include the total assets of the Investment in Plant subgroup.

Example: Investment in Plant = 41,600 = Institutional Plant

Line 7--Include all "due from's" shown as assets in any of the fund groups and show the corresponding "due to's" in brackets.

Example:				
	Loan	=	3	
	Plt. - Unexp.	=	150	
	Plt. - R & R	=	5	
			158	= Due From
	C.F. - UR	=	(158)	= Due To
	Total	=	0	= Interfund Borrowing

Line 8--Enter the sum of the assets for each fund group (or subgroup) in the appropriate column.

Example:			
C.F. - UR	=	210	= Cash
		450	= S.T. Investment
		228	= Acct. Rec.
		118	= Invent., etc.
		(158)	= Due To
		848	= Total Assets

Line 9--Include accounts payable of the Current Fund (both Restricted and Unrestricted) and the Unexpended Plant Funds subgroup, and accrued liabilities of the Current Fund.

Example:			
C.F. - UR	=	125	
C.F. - R	=	14	
Plt. - Unexp.	=	10	
C.F. - UR	=	20	
Total	=	169	= Accounts Payable & Accrued Liabilit

Line 10--Include student deposits of the Current Fund.

Example: C.F. - UR = 30

Line 11--Include deferred revenues of the Current Fund.

Example: C.F. - UR = 30

Line 12--Include government grants refundable from Loan Funds, notes payable from Unexpended Plant Funds, and notes payable from the Investment in Plant subgroup.

Example:			
Loan	=	50	
Plt. - Unexp.	=	100	
Inv. in Plt.	=	790	
Total	=	940	= Notes Payable

Line 13--Include annuities payable from Annuity Funds and income payable from Life Income Funds.

Example:			
Annuity	=	2,150	
L.I.	=	5	
Total	=	2,155	= Contracts Payable

Line 14--Include mortgages payable from the Investment in Plant subgroup.

Example: Inv. in Plant = 400 = Mortgages Payable

Line 15--Include bonds payable from the Investment in Plant subgroup and from the Unexpended Plant Funds subgroup.

Example:			
Inv. in Plt.	=	2,200	
Unexp. Plt.	=	400	
Total	=	2,600	= Bonds Payable

Line 16--Enter the sum of the liabilities for each fund group (or subgroup) in the appropriate column.

Example: C.F. - R = 14 = Total Liabilities

Follow same procedure for other Fund Group columns.

Line 17--Include the fund balance for Current Funds-Unrestricted

Example: C.F. - UR = 643 = For Current Operations-Unrestricted

Line 18--Include the fund balance for Current Funds-Restricted

Example: C.F. - R = 446 = For Current Operations-Restricted

Line 19--Include the unrestricted fund balances of all fund groups, excluding the Current Fund.

Example:

Loan	=	150	
Quasi-Endow.	=	2,360	
Plt. - Unexp.	=	200	
Plt. - R & R	=	235	
Plt. - RoI	=	115	
Total	=	3,060	= Board Designated Funds

Line 20--Include the restricted fund balances of all fund groups, excluding the Current Fund.

Example:

Loan	=	483	
Endow.	=	7,800	
Term Endow.	=	3,840	
Annuity	=	1,165	
L.I.	=	2,055	
Plt. - Unexp.	=	1,000	
Plt. - R & R	=	25	
Plt. - RoI	=	185	
Total	=	16,553	= Restricted to Other than Current Operations

Line 21--Include the figure for "net investment in plant" in the Investment in Plant subgroup.

Example: Inv. in Plt. = 38,210 = Net Investment in Institutional Plant

Line 22--Enter the sum of the fund balances for each fund group (or subgroup) in the appropriate column.

Example: Loan - Board Desig. = 150
- Restricted = 483
633 = Total Fund Balance

Follow same procedure for other Fund Group columns.

Line 23--Add the figure shown for each column in lines 16 and 22 and enter the sum in the appropriate column.

Example: C.F. - UR = 205 = Total Liabilities
643 = Total Fund Balances
848 = Total Liabilities and Fund Balances

CHAPTER 5

STATEMENT OF CHANGES IN FUND BALANCES

STATEMENT OF CHANGES IN FUND BALANCES--DESCRIPTION

The most important financial information for planning and management purposes is that which describes the dynamics of the institution's finances. The "flow" of funds into and out of the institution and the activities financed by those funds are of primary importance for planning and management at all levels. The flow of funds for a higher education institution is quite different from that for a business enterprise. As described in Chapter 2, the flow of funds into the institution is characterized by many quite different sources of funding and by various types and degrees of restrictions as to use. In addition, the timing of these revenue flows is both very specific (for example, governmental appropriations) and very unpredictable (for example, private gifts). The flow of funds out of the institution supports activities that, in turn, allow institutions to attain their educational objectives. In analyzing the flow of funds for an institution the analyst will focus on the "uses" of institutional funds and the "sources" of those funds. An analysis of "uses" will tell the analyst which activities the institution is supporting and the amount of its resources being used for each activity in order to attain its objectives. An analysis of "sources" will tell the analyst how dependent the institution is upon one particular source of funding, the degree of management flexibility in shifting funds to meet changing needs, and something about the stability of those sources for comparable or increased funding in the future.

The "Statement of Changes in Fund Balances" is used by higher education institutions to describe the total institutional flow of funds into, out of, and among all the various fund groups. The format for this statement is essentially a matrix in which the fund groups are shown in the columns of the matrix and the various flows are described in rows. The figure below (see Figure 4) is a "model" that shows the general format used for this statement.

Figure 4

Statement of Changes in Fund Balances

	Current Fund	Loan Fund	Endowment Fund	Annuity & L.I. Fund	Plant Fund	Total
Additions						
Deductions						
Transfers						
Summary						

The funds flowing into the various fund groups are shown as additions, the funds flowing out of each group as deductions, and the flow among fund groups as transfers. Usually a "Statement of Changes in Fund Balances" also includes a summary of the net effect of these flows for each fund group. A detailed "Statement of Changes in Fund Balances" is shown in Figure 5.

FIGURE 5

STATEMENT OF CHANGES IN FUND BALANCES (Figures in thousands)		Current Funds		Loan Funds	Endowment & Similar Funds	Annuity & Life Income Funds	Plant Funds				Total
		Unrestricted	Restricted				Unexpended	Renewal & Replacement	Retire. of Indebtedness	Investment in Plant	
Additions	Tuition & Fees	2,600									2,600
	Governmental Appropriations — Local						50				50
	Governmental Appropriations — State	1,300									1,300
	Governmental Appropriations — Federal										
	Governmental Grants & Contracts — Local										
	Governmental Grants & Contracts — State										
	Governmental Grants & Contracts — Federal	35	500								535
	Private Gifts, Grants, & Contracts	850	370	100	1,500	800	115		65	15	3,815
	Investment Income — Unrestricted	325									325
	Investment Income — Restricted		224	12	10		5	5	5		261
	Net Realized Gains on Sale of Investments — Unrestricted				109						109
	Net Realized Gains on Sale of Investments — Restricted			4	50		10	5	5		74
	Sales & Services of Auxiliary Enterprises	2,200								1,550	2,200
	Other (Itemize if material) — Additions to Plant Facilities									220	1,550
	Other (Itemize if material) — Retirement of Indebtedness						50		3		220
	Other (Itemize if material) — Other	230		25	10						318
	Total Additions	7,540	1,094	141	1,679	800	230	10	78	1,785	13,357
Deductions	Current Fund Expenditures — Educational & General (Excluding Transfers)	4,400	1,014								5,414
	Current Fund Expenditures — Noneducational & General (Including Auxiliary Ent.)	1,830									1,830
	Loan Cancellations & Write-offs			1							1
	Expended for Plant Facilities						1,200	300			1,500
	Debt Service — Principal								220		220
	Debt Service — Interest				90				190		190
	Other (Itemize if material) — Expired Term Endowment									115	90
	Other (Itemize if material) — Disposal of Plant Facilities								1		115
	Other (Itemize if material) — Other		55	11		85					152
	Total Deductions	6,230	1,069	12	90	85	1,200	300	411	115	9,512
Transfers	Mandatory Transfers Into/(Out of) — Debt Service	(340)							340		
	Mandatory Transfers Into/(Out of) — Renewal & Replacement	(170)						170			
	Mandatory Transfers Into/(Out of) — Loan Fund Matching Grant	(2)		2							
	Mandatory Transfers Into/(Out of) — Other (Itemize if material)										
	Nonmandatory Transfers Into/(Out of) — Distribution of Capital Gains	40			(40)						
	Nonmandatory Transfers Into/(Out of) — Designation of Unres. Funds	(650)		50	550		50				
	Nonmandatory Transfers Into/(Out of) — Other (Itemize if material)										
	Total Transfers Into/(Out of)	(1,122)		52	510		50	170	340		
Net Increase/(Decrease) for the Year		188	25	181	2,099	715	(920)	(120)	7	1,670	3,845
Fund Balance - Beginning of Year		455	421	502	11,901	2,505	2,120	380	293	36,540	55,117
Fund Balance - End of Year		643	446	683	14,000	3,220	1,200	260	300	38,210	58,962

STATEMENT OF CHANGES IN FUND BALANCES--USES AND LIMITATIONS

The Statement of Changes in Fund Balances portrays the flow of funds for the entire institution and it should be used whenever data requiring an "institutional" focus are needed. The uses and limitations of the Statement of Changes in Fund Balances are illustrated below by describing how answers to various questions can be obtained through use of such a report.

1. What are the sources of funds received by the institution available for the support of current operations?

   Answer: The answer to this question can be found by looking at those sources itemized (in rows) in the ADDITIONS section of the Statement of Changes in Fund Balances. Those monies received and available for current operating purposes (whether expended during the reporting period or not) are shown in the two columns, "Current Funds-Unrestricted" and "Current Funds-Restricted."

2. What funds were received during the reporting period specifically for (1) the support of student, faculty, and staff loans, (2) the construction or renovation of institutional plant, and (3) additions to the institution's endowment fund?

   Answer: The respective answers to each of these questions can be found by looking at the ADDITIONS section (1) in the Loan Funds column,

(2) in the Plant Fund column, and (3) in the Endowment and Similar Funds column. The amounts shown in these columns represent funds restricted by the donor to those respective fund groups. All unrestricted additions (even if they are later "designated" for use in one of these three fund groups) are shown in the ADDITIONS section in the column "Current Funds-Unrestricted."

3. How much money was expended during the reporting period for current operating purposes?

   Answer: In the DEDUCTIONS section, the two row items for "Current Fund Expenditures" in the two Current Fund columns provide the answer to this question. The deduction shown in the column "Current Fund-Unrestricted" is the amount of unrestricted monies used for current operations and the deduction shown in the "Current Fund-Restricted" column is the amount of restricted funds used for current purposes. (Note that these amounts do not include transfers out of the Current Fund.)

4. How much was expended during the reporting period for the construction of plant facilities?

   Answer: The amount expended from the Plant Funds for new facilities during the reporting period is the deduction "Expended for Plant Facilities" in the column "Plant Funds-Unexpended." The value of

new institutional plant will be shown also as an addition. "Additions to Plant Facilities," in the column "Plant Funds-Investment in Plant." It should be noted that while major additions to the institution's investment in plant usually are made from the Unexpended Plant Fund, some additions also may be included in Current Fund expenditures.

5. What other kinds of transactions occurred during the reporting period that resulted in the use of institutional funds?

Answer: Several other items are shown in the DEDUCTIONS section that result in a use of funds within one of the fund groups. In most cases such deductions are characteristic of the fund group itself (for example, the deduction "debt service" from the "Plant Funds-Retirement of Indebtedness" subgroup). It should be emphasized that the total deductions for a particular fund group will seldom be equal to the total additions to that same fund group. "Transfers" also must be taken into account before a net change (either positive or negative) can be determined for any fund group.

6. What is the extent and nature of the flow of funds among the institution's various fund groups?

Answer: The section TRANSFERS describes the net movement of funds between the institution's fund groups. The movement of funds between fund groups is shown as a positive amount in the

recipient fund group's column (a flow of funds into the fund group) and as a negative amount, in parentheses, in the donor fund group's column (a flow of funds out of the fund group).

7. What, for each fund group, is the net result of the flow of funds into, out of, and among fund groups?

   Answer: The row item "Net Increase/(Decrease) for the Year" answers this question for each fund group. It represents the net result of all additions, deductions, and transfers within each fund group--a net addition to the fund group is shown as a positive figure and a net deduction as a negative figure, in parentheses. A summary of the effect of this net increase or decrease on each group's fund balance is shown in the two row items, "Fund Balance-Beginning of Year" and "Fund Balance-End of Year."

The primary limitation of the Statement of Changes in Fund Balances is that it provides only a summary picture of the actual flow of funds for all of the individual fund groups. A supplementary statement would be needed if the user wanted to obtain more detailed information about the flows associated with any particular fund group. Such supplementary statements for individual fund groups generally are not needed by users outside the institution, with one notable exception. The Current Fund is used to report on those funds needed to carry out the institution's educational activities (instruction, research, and public service) and related support functions (academic support, student services, and institutional support)--those activities most directly related to the attainment of the institution's objectives. In addition it is used to

report on the operations of the institution's auxiliary enterprises. Therefore, a supplementary statement detailing the flow of funds associated with the Current Fund is of particular interest for planning and management purposes. A supplementary statement for the Current Fund, called the "Statement of Current Fund Revenues, Expenditures, and Other Changes", is described in Audits of Colleges and Universities (AICPA: 1973). This manual describes a set of supplementary statements for the Current Fund called the "HEFM Current Fund Source/Use Schedules" (see Chapter 6). Both of these two supplementary statements provide a more detailed description of the flow of funds shown in the "Statement of Changes in Fund Balances" for the Current Fund (see Figure 6).

Figure 6

Statement of Changes in Fund Balances

	Current Fund	Loan Fund	Endowment Fund	Annuity & L.I. Fund	Plant Fund	Total
Additions						
Deductions						
Transfers						
Summary						

Current Fund Supplementary Statements

STATEMENT OF CHANGES IN FUND BALANCES--DEFINITIONS

This section is intended as an aid to both the data user in understanding the Statement of Changes in Fund Balances and to the data provider in preparing such a statement. However, the primary focus is on providing an answer to the question, "What data does the Statement of Changes in Fund Balances include?" rather than "How should the statement be completed?" The definitions described in this section are consistent with Audits of Colleges and Universities (AICPA: 1973), Report of the Joint Accounting Group (AICPA, NACUBO, NCHEMS: 1974), and the accounting section of NACUBO's Administrative Services manual (NACUBO: 1974).

Additions

- The term "additions" applies to those monies added to all fund groups during the reporting period including additions to the Current Fund, whether reported as revenues or not. The terms "additions" and "revenues" are distinct and have quite different meanings in fund accounting. The term "revenues" applies to the Current Fund only and includes (1) all unrestricted additions to the Current Fund during the reporting period and (2) that portion of restricted funds which are expended during the reporting period. A definition of each of the categories listed below, as they relate to Current Fund revenues, is provided in the definitions for the "HEFM Current Fund Source/Use Schedules" pages 106-117.

1. Tuition and Fees--Includes all tuition and fees assessed (net of refunds) against students for educational purposes. Charges for room, board, and other services rendered by auxiliary enterprises are not included in this category, but are shown as "Sales and Services of Auxiliary Enterprises."

2. Governmental Appropriations--Includes those funds received from, or made available by, governmental sources through legislative acts for current operations. It includes governmental appropriations made from tax funds and federal revenue sharing funds and, therefore, does not include institutional fees and other income reappropriated by the legislature to the institution. Such amounts should be deducted from this category and reported in the appropriate categories.

3. Governmental Grants and Contracts--Includes funds received from, or made available by, government agencies for specific projects or programs, including student aid. Examples are research projects, training programs, training and instructional institutes, and similar activities for which financial support is received under the terms of a governmental grant or contract.

4. Private Gifts, Grants, and Contracts--Includes all amounts received from individuals or nongovernmental organizations. It includes also those monies resulting from the purchase of goods or services from the institution on a contractual basis

by individuals or nongovernmental agencies, exclusive of those normally classified as the sales of various educational or support departments.

5. Investment Income--Includes (1) unrestricted income of endowment and similar funds, (2) restricted income of endowment and similar funds, whether or not the income is expended during the reporting period, and (3) income from funds held in trust by others under irrevocable trusts. This category does not include the net capital gains resulting from the sale of investments (which would be included in "Net Realized Gains on Sale of Investments") nor does it include any portion of the gain on investments used for current operations under the "total return" concept.

6. Net Realized Gains on the Sale of Investments--Includes all net additions to particular fund groups resulting from the sale of the assets of the fund group for an amount greater than the carrying value of those assets (either cost or fair market value). Net losses should be shown as deductions.

7. Sales and Services of Educational Activities--Includes all funds derived from the sales of goods or services that are incidental to the conduct of instruction, research, or public service. For reporting purposes, the type of service takes precedence over the form of the agreement by which those services are rendered. Therefore, the incidental revenues of educational

departments would be included in this category even if they should be performed under contract. Monies derived from the sale of goods and services by auxiliary enterprises and hospitals would not be included in this category.

8. Sales and Services of Auxiliary Enterprises--Includes all monies generated by the auxiliary operations of the institution. An auxiliary enterprise is an entity that exists to furnish goods or services to students, faculty, or staff and that charges a fee directly related to, although not necessarily equal to, the cost of the service. The general public may be served incidentally by some auxiliary enterprises. Auxiliary enterprises generally include residence halls, food services, intercollegiate athletics (if operated as an essentially self-supporting operation), college stores and unions, and so forth.

9. Sales and Services of Hospitals--Includes all funds directly attributable to the operation of the hospital. It does not, therefore, include those funds derived from grants, gifts, appropriations, or endowment income restricted for hospital operations.

10. Other--This category includes all other additions to fund groups not included in one of the categories described above. Any additions that are material should be itemized. This category also includes earnings on the short-term investments of the Current Fund.

Deductions

- The term "deductions" includes all funds flowing out of any of the fund groups during the reporting period, except those funds leaving a fund group as the result of a transfer of funds.

1. Current Fund Expenditures--This category includes all expenditures from both the unrestricted Current Fund and the restricted Current Fund.

2. Loan Cancellations and Write-Offs--Includes those amounts deducted from the Loan Fund to provide for uncollectable loans.

3. Expended for Plant Facilities--Includes capitalized disbursements made from the "Plant Fund-Unexpended" subgroup for newly acquired or constructed plant facilities, as well as capitalized disbursements from the "Plant Fund-Renewal and Replacement" subgroup for renovations to existing plant.

4. Debt Service--Includes all deductions from the "Plant Fund-Retirement of Indebtedness" subgroup for the purpose of servicing the institution's debt on its physical plant. Physical plant obligations are generally the only type of long-term debt most institutions have, although some short-term debt also might be incurred in order to meet current operating needs. If debt is incurred in any of the other fund groups, all payments made to service this debt would

be included also in this category. This category does not, however, include transfers made from one fund group for the purposes of satisfying debt requirements in another group--these would be included in the "transfers" section.

5. Other--Includes all other deductions from fund groups not included in one of the categories described above. Any deductions that are material should be itemized. Examples of other deductions include the disposal of plant facilities (a deduction from the "Investment in Plant" subgroup), administrative and collection costs in the Loan Fund, and uncapitalized disbursements from unexpended Plant Funds.

Transfers

- This section of the Statement of Changes in Fund Balances includes all flows of funds among the various fund groups during the reporting period. Transfers are "self-balancing" across the columns of the Statement of Changes in Fund Balances. In other words, every transfer results in an equal addition (shown as a positive figure in the receiving fund group column) and deduction (shown as a negative figure in parentheses in the donor fund group column)--therefore the net result always will be zero.

1. Mandatory Transfers--Includes all transfers made to fulfill a binding legal obligation of the institution.

- Debt Service--Includes all mandatory provisions made to satisfy debt obligations on academic buildings and auxiliary enterprise operations.
- Renewal and Replacement--Includes all mandatory provisions made for the renovation of institutional plant.
- Loan Fund Matching Grant--Includes all mandatory transfers of institutional funds to the Loan Fund as required in order to match outside gifts or grants, usually from the U.S. government, for loan purposes.
- Other Mandatory Transfers--Includes all mandatory transfers not included in one of the above categories. Other mandatory transfers that are material should be itemized.

2. Nonmandatory Transfers--Includes all transfers made from one fund group to another at the discretion of the institution's governing board.
   - Distribution of Capital Gains--This category includes that portion of the capital gains on the institution's investments used by the institution, usually for current operating purposes. Such distributions are in accordance with the "total return" concept. A more detailed discussion of this concept is included in Audits of Colleges and Universities, pp. 37-42.

   - Designation of Unrestricted Funds--This category includes those unrestricted funds "designated" (and therefore

transferred) for a specific purpose in another fund group by the institution's governing board. Although such designations usually involve unrestricted funds of the Current Fund, a "redesignation" of funds previously designated for a different purpose may be made and the subsequent transfer recorded in this category.

- Other Nonmandatory Transfers--Includes all nonmandatory transfers not included in one of the above categories. "Other nonmandatory transfers" should be itemized when material.

Summary Data

- The final section of the Statement of Changes in Fund Balances summarizes for each fund group the results of all of the flows into, out of, and among the various fund groups. These figures can be related directly to the same figures for each fund group in the institutional Balance Sheet.

1. Net Increase/(Decrease) for the Year--This category includes the net increase (shown as a positive figure) or decrease (shown as a negative figure in parentheses) of the fund balance for each fund group. The figure shown in this category is determined for each fund group by adding the figures for "Total Additions" and net "Transfers Into" and subtracting the figures for "Total Deductions" and net "Transfers Out of."

2. Fund Balance-Beginning of Year--This is the total of the fund balance prior to any of the flows additions, deductions, and transfers described in the statement for that fund group.

3. Fund Balance-End of Year--This is a total for the fund balance after all of the additions, deductions, and transfers described in the statement. It is determined by adding (or subtracting) the "Net Increase/(Decrease) for the Year" and "Fund Balance-Beginning of Year."

CHAPTER 6

HEFM CURRENT FUND SOURCE/USE SCHEDULES

The Statement of Changes in Fund Balances described in Chapter 5 is the format used to look at the flow of funds for all fund groups. However, it often is useful to isolate one particular fund group and look only at the flows associated with it. The Current Fund is the fund group most often studied as a separate entity.

The Current Fund is used to account for most of the activities the institution carries on in order to attain its educational objectives. The Current Fund is used also to account for the resources used to finance activities associated with the institution's primary objectives (instruction, research, and public service) and activities carried out in support of these "primary" activities (academic support, student services, and institutional support), as well as auxiliary enterprises. Therefore, a great deal can be learned by focusing solely on the Current Fund.

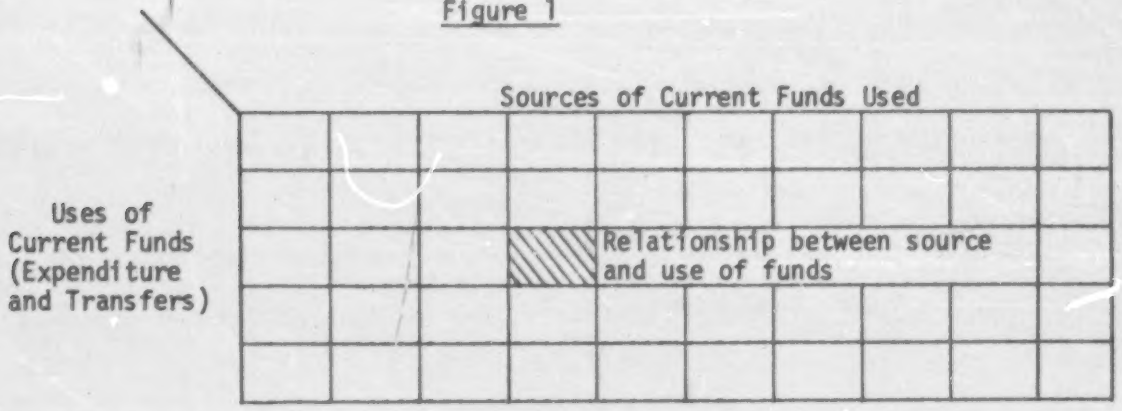
A review of the Current Fund should include an analysis of the sources of Current Fund resources and the uses of those resources. A study of the uses of Current Fund expenditures and transfers will tell the analyst which educational and educational support activities the institution supported and the level of funding used in support of each of those activities. An analysis of the sources of Current Fund monies will tell the analyst those sources of funding used to finance the institution's educational and

educational support activities. The financial statement typically used by institutions to report on the Current Fund is the "Statement of Current Funds Revenues, Expenditures, and Other Changes" (see Exhibit C, Audits of Colleges and Universities, pp. 66-67).

THE SOURCE/USE "MATRIX" FORMAT

The report formats described in the HEFM manual for the analysis of Current Fund resources are called the "HEFM Current Fund Source/Use Schedules." These schedules differ from the Statement of Current Funds Revenues, Expenditures, and Other Changes in that they employ a "matrix" format rather than a tabular listing of sources and uses. In the "HEFM Current Fund Source/Use Schedules" the uses of Current Fund resources are displayed along the vertical dimension of a matrix and the sources of Current Fund monies are displayed along the horizontal dimension. The intersection between a use category (in rows) and a source category (in columns) is a "cell" of the matrix (see Figure 1).

Figure 1


Sources of Current Funds Used
Uses of Current Funds (Expenditure and Transfers)
Relationship between source and use of funds

It is the information contained in these cells that is unique to the "HEFM Current Fund Source/Use Schedules." The cells of the matrix tell the analyst about the relationship between the sources and the uses of Current Fund resources. For example, by focusing on the use dimension of the matrix, the information displayed in the cells can tell the user (1) the amount expended or transferred for a particular purpose during the reporting period and (2) the sources of funds used to finance those uses. By focusing on the source dimension, the information displayed in the cells can tell the user (1) those sources used to support the various activities carried out during the period and the level of support from each source and (2) the uses (or activities) supported by any one source or by groups of sources during the reporting period.

It should be emphasized that the source/use "matrix" is a concept for the formatting of higher education financial data. The "HEFM Current Fund Source/Use Schedules" apply this concept to the total Current Fund in aggregated categories of Current Fund expenditures and transfers and in categories of the sources used to finance those expenditures and transfers. If it is viewed as a concept for formatting data, rather than as a specific Current Fund financial statement, its utility in higher education planning and management can be greatly enhanced. The following are examples of how the concept of a source/use matrix format can be used in planning and management:

1. Expand or Aggregate Categories within the Matrix--The "HEFM Current Fund Source/Use Schedules" use the revenue and expenditure categories recommended by the Joint Accounting Group as the source and use dimensions of the matrix. However, the matrix concept allows the

user to substitute more detailed or more aggregate categories in either or both dimensions of the format. Therefore, the HEFM Current Fund Source/Use Schedules should be viewed as only one example of the information that can be provided in a "matrix" format.

2. Detailed Analysis of Individual Cells--In many cases the analyst will need detailed information about individual cells of the matrix, while fairly aggregate information will be sufficient for the other sources and uses of Current Fund monies. The matrix concept allows the user to isolate specific cells of the matrix and look at a detailed breakdown of data for those particular cells without a similarly detailed treatment of the other cells. For example, it may be important to look at "Governmental Grants and Contracts-Federal"/"Research" in some depth. More detail may be needed either about research expenditures or about the sources of funds used for research, or both. However, it may not be necessary to look at the same detail for all other sources and uses of Current Fund resources.

3. Communication Tool--The source/use matrix concept has been shown to be a useful way of communicating financial information to persons unfamiliar with typical higher education financial reports. Therefore, the source/use matrix can be used as a communication bridge between planners and managers who must use higher education financial data and institutional fiscal officers who must provide such information. Since the HEFM Current Fund Source/Use Schedules provide an overall picture of the Current Fund, they can be used to highlight questions

that data users might have about specific aspects of the Current Fund's operations. Questions posed in the matrix context will allow data providers then to respond with more detailed financial data (in whatever format they feel is necessary) with a greater probability that the data user will understand the answer given.

In addition to the uses of the source/use matrix concept described above there are certainly other uses that can be made of such a format. The important point in this discussion is that the reader should view the source/use matrix as a concept which can be expanded or contracted to satisfy specific information needs and not as a single, rigidly defined, financial statement for the Current Fund.

HEFM CURRENT FUND SOURCE/USE SCHEDULES

The matrix concept described above has been used to develop a set of reports for the display of Current Fund resources, the "HEFM Current Fund Source/Use Schedules." They are comprised of two separate schedules, both of which provide a detailed look at one aspect of the flow of funds within the Current Fund. Schedule A provides a detailed breakdown of Current Fund revenues and Schedule B describes Current Fund expenditures.

Schedule A--Schedule A is designed to provide an overview of the sources of current operating revenues. It displays the sources of total unrestricted funds received and the sources of restricted funds used. It is a condensation of the revenue section of the conventional current funds operating statement.

Figure 2

SCHEDULE A
CURRENT FUND REVENUES AND OTHER TRANSFERS
CLASSIFICATION BY SOURCE

Educational & General	Unrestricted	Restricted	Total
Tuition & Fees			
Governmental Appropriations - Federal			
Governmental Appropriations - State			
Governmental Appropriations - Local			
Governmental Grants & Contracts - Federal			
Governmental Grants & Contracts - State			
Governmental Grants & Contracts - Local			
Private Gifts, Grants, & Contracts			
Endowment Income			
Sales & Services of Educational Activities			
Other Sources			
Transfers to Current Funds (E & G) from			
Endowment Funds			
Loan Funds			
Plant Funds			
Annuity & Life Income			
Total Educ. & General Revenues & Transfers			
Additions to (Deductions from) Fund Balance			
Total Educ. & General Expenditures & Transfers			
Auxiliary Enterprises			
Sales & Services of Auxiliary Enterprises			
Other Sources (Itemize if material)			
Transfers to Current Funds (Auxiliary Enterprises)			
Total Auxiliary Ent. Revenues & Transfers			
Additions to (Deductions from) Fund Balance			
Total Auxiliary Ent. Expenditures & Transfers			
Hospitals			
Sales & Services of Hospitals			
Other Sources (Itemize if material)			
Transfers to Current Fund (Hospitals)			
Total Hospital Revenues & Transfers			
Additions to (Deductions from) Fund Balance			
Total Hospital Expenditures & Transfers			
Independent Operations (if applicable)			
Total Independent Oper. Revenues & Transfers			

Schedule B--The source/use matrix concept stipulates that the sources of Current Funds resources should be displayed along one dimension of a matrix with the uses displayed along the other dimension. Schedule B is the HEFM format built on this matrix concept. However, in designing a report format specifically for use in reporting on the Current Fund, certain characteristics of fund accounting and institutional accounting systems had to be taken into account:

1. Many institutional accounting systems are designed with two separate subsystems: one to account for Current Fund income (or revenues) and one for Current Fund expenditures. Therefore, a Current Fund report should take into account the problems inherent in retrieving data from such accounting systems. This is important particularly if the report seeks to relate the sources and uses of funds.

2. Most institutions, in accounting for unrestricted Current Fund monies, essentially place them in one unrestricted "pool" that it then can draw on whenever funds are needed. Once unrestricted funds are placed in this pool, it is impossible to identify the source of any particular part of the total pool. However, in the case of restricted Current Funds, specific instructions are given by the donor concerning the use of the funds. Therefore, the institution must maintain the identity of the source of all restricted funds ("follow" them) in order to be able to report that they were indeed used for the purpose for which they were given to the institution. An application of the source/use

FIGURE 3
SCHEDULE B

Source of Funds / Use of Funds	Unrestricted Funds Used (By Function)	Restricted Funds Used by Source and by Function																	Total Expend. & Transfers Out
		Tuition & Fees	Governmental Appropriations			Governmental Grants & Contracts			Private Gifts, Grants, & Contracts	Endowment Income	Sales & Serv. of Educ. Activ.	Sales & Serv. of Aux. Ent.	Sales & Serv. of Hosp.	Indep. Oper.	Other Sources	Transfers Into Current Fund From:			Total Restricted Funds Used	
			Local	State	Federal	Local	State	Federal								Endow. Fund	Loan Funds	Other Funds		
Educational & General																				
Instruction																				
Research																				
Public Service																				
Academic Support																				
Student Services																				
Institutional Support																				
Operation & Maintenance of Plant																				
Scholarships & Fellowships																				
Mandatory Trfs. Out of the Current Fund: Debt Service																				
Mandatory Trfs. Out of the Current Fund: Renewal & Replacement																				
Mandatory Trfs. Out of the Current Fund: Loan Fund Matching Grant																				
Mandatory Trfs. Out of the Current Fund: Other (Itemize if material)																				
Nonmand Trf. Out of the Current Fund: Renewal & Replacement																				
Nonmand Trf. Out of the Current Fund: Debt Service																				
Nonmand Trf. Out of the Current Fund: Other (Itemize if material)																				
Total E & G Expenditures & Transfers Out																				
Add (Deduct) to Fund Balance																				
Total Revenues & Transfers																				
Auxiliary Enterprises																				
Total Expenditures & Transfers																				
Add (Deduct) to Surplus																				
Total Revenues & Transfers																				
Hospitals																				
Total Expenditures & Transfers																				
Add (Deduct) to Fund Balance																				
Total Revenues & Transfers																				
Independent Operations																				
Total Expenditures & Transfers																				
Add (Deduct) to Fund Balance																				
Total Revenues & Transfers																				
Total Institution																				
Add (Deduct)																				

matrix concept for the Current Fund must take into account the ability to trace the source of restricted funds and the inability to trace the source of unrestricted funds.

Schedule B is a matrix presentation of the expenditures and transfers section of the conventional Current Fund operating statement. It is designed to display, by the source of the funds, the uses of the unrestricted "pool" of Current Fund resources and the uses of those restricted funds expended.

HEFM CURRENT FUND SOURCE/USE SCHEDULES--USES AND LIMITATIONS

The uses and limitations of the Current Fund Source/Use Schedules will be described by suggesting how such reports can be used to answer a hypothetical set of questions about the institution's operations. All questions apply to one reporting period for which a source/use matrix might be prepared.

1. What are the sources of revenue in the Current Fund?

   Answer: The sources of revenue in the Current Fund are shown in Schedule A of the Current Fund Source/Use Schedules. Current Fund revenues, as described in Schedule A, are closely related to the institution's operating budgets and the funds used in support of those budgets.

2. What activities were funded by the institution from Current Funds (that is, what were the uses) and what level of funding did each activity receive?

Answer: The rows in Schedule B outline the primary activities supported in the Current Fund. One can determine which activities were funded and what level of funding each received by looking at the "total expenditures" column at the far right of Schedule B for each activity. The activities chosen for the "use" dimension in Figure 4 are the highest level of aggregation of the functional expenditure categories proposed by the Joint Accounting Group (JAG). Subcategories within each of these JAG expenditure categories generally will exist in the institution's accounting system and can be used if more detailed expenditure information is needed. Therefore, the "use" dimension (or any subset of the activities shown on that dimension) can be expanded and a more detailed expenditure source/use matrix prepared.

3. What portion of Current Fund monies were essentially "pledged" for noncurrent operating needs by legal obligations of the institution?

Answer: Legal obligations requiring the mandatory transfer of a portion of unrestricted Current Fund monies result in what is essentially a "pledged" portion of unrestricted Current Funds. Mandatory transfers involve payments that must be made to satisfy binding legal agreements. Therefore, the answer to the question can be found by looking at the "total" column in the "mandatory transfers" row.

In addition to these very general questions concerning the activities of the Current Fund, more specific "management" questions can be addressed with the aid of the "HEFM Current Fund Source/Use Schedules." The formats have been designed to highlight such areas of management concern as auxiliary enterprises operations, hospitals, and independent operations. These operations can be viewed separately from the institution's educational and educational support activities (categorized as "Educational and General") and questions can be asked, such as:

- Are the auxiliary enterprises operations of the institutions actually self-supporting?
- If not, what are the sources of those additional funds being used to support the auxiliary enterprises operations?

Similar questions can be asked about "hospitals" and about the true "independency" of the institution's "Independent Operations." In addition to specific questions about the Current Fund, the Current Fund Source/Use Schedules also provide the user an overview of the financing of the current operations of the institution. There are several aspects of the financing of institutional operations about which the source/use formats can provide the user valuable insight:

- Restricted funds are essentially funds over which the institution has only limited management flexibility. Financing of the institution's total program of activities requires that unrestricted funds be managed in such a way that they pay for those activities not paid for by restricted funds.

Schedule B allows the user to determine where "holes" exist in restricted financing that must be filled with unrestricted funds and the amount of unrestricted funds needed to supplement restricted monies for specific purposes.

- The source/use formats (and Schedule B in particular) give the user insight into the potential implications of "soft money" (funds for which the existence and the level of funding are relatively uncertain in the long run). A large proportion of what ordinarily would be classified as "soft money" is restricted funds. Therefore, looking at the sources of restricted expenditures in Schedule B will aid the user in identifying soft money and looking at the uses of those expenditures will provide the user with an understanding of the potential impact of a loss of such soft monies on the institution, as well as where the impact would be felt. For example, federal research monies (restricted) usually are considered "soft money." A very detailed breakdown of federal research expenditures in Schedule B might show the user that several departments and many tenured faculty are being supported with soft money. Such an awareness of the effects of potential cutbacks in federal funding in these areas then would allow for the conduct of appropriate contingency planning.

- A third use of the source/use formats involves the resource acquisition and fund raising operations of the institution. Private institutions have found that many donors restrict the use of their

gifts rather than giving the institution unrestricted funds. Schedule B can be used by the institutional fund raiser to show potential donors where adequate restricted funding already is available and where the real need for additional restricted monies (assuming the donor desires to restrict the donation) exists. The source/use formats consequently can be used in fund-raising operations to "channel" restricted donations to those uses for which they are most needed. For public institutions involved in appropriation hearings, the source/use formats can be used to focus attention on the uses for which governmental appropriations, as well as other sources of revenue, were expended during the previous year. In addition, the matrix can be used to emphasize the restricted nature of many of the institution's financial resources and can aid in seeking unrestricted funds where "holes" in restricted financing exist.

The most significant limitation of the "HEFM Current Fund Source/Use Schedules" is the limitation that exists for any Current Funds report: it tends to divert the attention of users away from the total flow of institutional funds by focusing on only one subset of that flow, the Current Fund. However, if users are sufficiently aware of the role of the Current Fund in institutional finances and if the source/use formats are used in conjunction with the "Statement of Changes in Fund Balances," no real problems should be encountered.

HEFM CURRENT FUND SOURCE/USE SCHEDULES--PROCEDURES FOR PREPARATION

Schedule A: This schedule, "Sources of Current Fund Revenues," should be prepared from the institution's income accounts. It requires the display of those restricted Current Fund revenues that were either expended or transferred out of the Current Fund during the reporting period and all unrestricted Current Fund revenues, whether expended or not. In many cases, the person preparing Schedule A will be able to obtain the necessary figures from the institution's financial report, "Statement of Current Fund Revenues, Expenditures, and Other Changes" (see Exhibit C, Audits of Colleges and Universities, pp. 66-67). The most common difficulty institutions will have in preparing Schedule A will be reaggregating data from their own categories of Current Fund revenues into the JAG's revenue categories as specified for Schedule A. Therefore, particular attention should be given to the definitions of the JAG revenue categories (see pages 106-117), and the definitions of restricted and unrestricted current funds.

Schedule B: This schedule, "Source/Use Matrix of Current Fund Expenditures and Transfers," will be the more difficult for many institutions to complete. It should be completed from the institution's expenditure accounts. However, most difficulties will arrise because this schedule requires not only the display of expenditure data in the JAG expenditure categories, but also it asks for the specification of the sources of restricted funds used to support each category of expenditures. This makes preparation of Schedule B actually a two-step process.

1. Expenditure data must be reaggregated from the institution's expenditure categories into the JAG expenditure categories (at whatever

level of data aggregation is desired). In conducting a crossover from institutional categories into the JAG categories, most institutions may find that there will be instances in which Schedule B can be completed very precisely and instances in which a certain amount of estimation will be required, even in the best accounting systems. For example, if an institution's expenditure categories are almost identical to the JAG categories, the crossover will be simple and the data will be precise. However, if the institution's categories and the JAG categories are quite different, part of the crossover can be completed accurately and part of it will require estimation by the person preparing the matrix.

2. The sources of restricted funds used to support expenditures must be identified. While there are several ways in which the sources of such funds can be related to the expenditures they support, institutions typically trace the sources of funding in one of two ways:

   - At some institutions a source of revenue code is recorded as part of the account number for every transaction in the expenditure accounting system. If the accounting system maintains source data and functional use data for every transaction, the procedure for completing the Schedule B primarily involves reaggregating data maintained in the institution's revenue and expenditure categories into the categories used in Schedule B.

The relationships between sources of restricted funds and expenditures already will exist in the institution's accounting system and can be obtained directly from the system. The primary task then is to identify the relationship between the institution's expenditure categories and the JAG expenditure categories.

- A common practice among institutions is to identify the source of funds as part of a "structured" fund code. This usually means that all unrestricted funds are reported as one fund code and that all restricted funds are reported by unique and separately identified funds. Within each fund code for restricted funds, several digits are used to identify the source of those funds. In order to identify the sources of Current Fund expenditures, the person preparing the Source/Use formats would relate the individual fund codes maintained in the expenditure accounting system to the JAG source categories stipulated for Schedule B. Once these individual relationships are identified, a "crossover table" can be prepared that will allow "sources" to be related to the appropriate categories of expenditures.

- If the source/use relationship for certain restricted funds is not directly determinable from the accounting records, it is recommended that a procedure for estimating the uses of restricted funds be used in preparing Schedule B. This procedure involves first determining a figure for "Total Revenues Utilized" for each source of restricted funds and then estimating the approximate

proportion of each source used to support the activities in each functional category. The chief fiscal officer at each institution probably can estimate the uses of each source of restricted funds with a reasonable degree of accuracy. Even in those cases where the relationships between the sources and uses of restricted funds are not a part of the accounting system, exact figures usually are known for certain cells of Schedule B (for example, "Governmental Grants and Contracts-Federal" used for "Research"). If exact figures are known for certain cells, these figures can be used to guide the data provider in completing the matrix.

HEFM CURRENT FUND SOURCE/USE SCHEDULES--RECONCILIATION

The Current Fund Source/Use Schedules describe two different aspects of the flow of funds in the Current Fund. Schedule A describes income and transfers in by source and Schedule B describes expenditures and transfers out by source. The two schedules should be reconcilable since they recognize additions to and deductions from fund balances, thereby making income and transfers in equal to expenditures and transfers out.

DEFINITIONS: CURRENT FUND REVENUES

TUITION AND FEES

Tuition and fees includes all tuition and fees assessed (net of refunds) against students for current operating purposes. Tuition and fees remissions or exemptions should be assessed and reported as revenue even though there is no intention of collecting from the student. An amount equal to such remissions or exemptions should be reflected as expenditures and classified in the category "Scholarships and Fellowships" (if that is the purpose of the exemption) or classified as staff benefits in the appropriate expenditure category (if the exemption is made in compliance with a formalized policy granting exemptions to relatives of the institution's staff or the staff itself).

If tuition and/or fees are remitted to the state as an offset to the state appropriation, the amount of tuition and fees should be deducted from the total for state appropriations and added to the total for tuition and fees.

If the assignment of student fees to debt service, renewals and replacements, or unexpended plant funds is an administrative action only, or is subject to change by the governing board, then such fees should be reported as Unrestricted Current Funds revenues and included in this category. Pledged revenue under bond indenture agreements should not be reported as additions to plant funds, but should be reported as Unrestricted Current Funds revenues. Monies from fees on which there are binding external restrictions

because they have been specifically assessed for debt service on institutional plant, or for renewals and replacements of plant, or for expansion of facilities should not be reported under this classification, but should be reported as direct additions to plant funds, since such fees are not legally available for current operating purposes.

Revenues from tuition and fees for an academic term, such as a summer session, conducted over a fiscal year end should be reported totally within the fiscal year in which the program is predominantly conducted. The revenues and expenditures for any summer session should be reported in the same fiscal year. This procedure for reporting the revenues of summer sessions is an allowable exception to reporting revenues on an accrual basis. All other revenues should be reported when earned.

Charges for room, board, and other services rendered by auxiliary enterprises are not included in this category but should be classified as "sales and services of auxiliary enterprises." If an all-inclusive fee for tuition, room, and board is charged, a reasonable allocation should be made between the categories "tuition and fees" and "sales and services of auxiliary enterprises."

Fees assessed for student health services that are operated as a service to the student body rather than as an auxiliary enterprise would be included in this category.

GOVERNMENTAL APPROPRIATIONS - FEDERAL

GOVERNMENTAL APPROPRIATIONS - STATE

GOVERNMENTAL APPROPRIATIONS - LOCAL

Governmental appropriations include those monies received from or made available to an institution through acts of a legislative body. They do not include governmental grants or contracts. These three categories include all such unrestricted appropriations and all restricted appropriations to the extent expended for current operations.

Funds disbursed for the account of the institution by a governmental agency, such as payments into a state retirement system on behalf of the institution, would be included in these categories.

These categories include only governmental appropriations made from tax levy funds, including those taxes levied directly by the institution under authority granted by the legislature or constitution, federal land-grant appropriations, and federal revenue sharing funds. They do not include institutional fees and other income reappropriated by the legislature to the institution. Tuition and fees collected by the institution and returned to the institution in the form of appropriations (i.e., reappropriated tuition and fees) would have to be subtracted as they already appear as tuition and fees.

Governmental appropriations should be categorized by the governmental level (federal, state, or local) of the legislative body funding the appropriation. The following criterion should be used in determining which legislative level is the funder:

> The funder level is the same as the level of that agency making the decision that the monies will be appropriated for the particular purpose for which they are ultimately expended.

For example, if the federal government stipulates a specific use for particular monies and those monies subsequently are only administered by the state, the funds would be classified as federal monies. However, if the federal government distributes funds to the state for unspecified general purposes (e.g., general revenue sharing) and the state then appropriates all or a portion of those monies to the institution, the funds received by the institution should be classified as state monies rather than federal monies.

The determination of whether a particular governmental appropriation should be classified as restricted or unrestricted funds should be based upon the ability of the institution to effect a change in the intended use of the funds during the reporting period, should circumstances require. If a change in the intended use of the funds can be made without having to go through the legislative process, the funds should be considered unrestricted. State general fund appropriations should be considered unrestricted funds unless the legislature places restrictions on their use so specific they substantially reduce the institution's flexibility in its

financial operations. Where an intermediate group exists, if a change in restrictions needs to be made and it can be made by the intermediate body without having to go back through the legislative process, the funds appropriated should be considered unrestricted.

GOVERNMENTAL GRANTS AND CONTRACTS - FEDERAL

GOVERNMENTAL GRANTS AND CONTRACTS - STATE

GOVERNMENTAL GRANTS AND CONTRACTS - LOCAL

Governmental grants and contracts include revenues from governmental agencies which are received or made available for specific projects or programs. It is assumed that in the case of a grant or contract, the legislative body makes appropriations to a governmental agency, which in turn enters into contracts with, or makes grants to, individual institutions. Examples are research projects, training programs, and similar activities for which amounts are received or expenditures are reimbursable under the terms of a government grant or contract.

Governmental grants and contracts should be categorized by the governmental level (federal, state, or local) of the agency providing the funds to the institution. The following criterion should be used in determining which governmental level should be considered the funder:

> The funder level is the same as the level of that agency that makes the decision that the contract will be entered into with, or the grant made to, the institution for the particular purpose for which it was ultimately transacted.

For example, if a federal agency stipulates a specific use for particular monies and those monies are only administered by state agencies, the funds would be classified as federal monies.

Amounts equal to direct costs incurred should be recorded as charges against current restricted funds and reported as Restricted Current Funds revenues. Related indirect costs recovered should be reported as unrestricted revenues.

PRIVATE GIFTS, GRANTS, AND CONTRACTS

Private gifts, grants, and contracts include amounts from individuals or nongovernmental organizations. The funds included in this category are of two types: (1) private gifts and grants and (2) private contracts. Private gifts and grants include those monies received from private donors for which no legal consideration is involved (i.e., no specific goods or services must be provided to the donor in return for the monies). Private contracts include those monies received for which specific goods and services must be provided to the funder as stipulation for receipt of the funds. This category includes all unrestricted gifts, grants, and bequests as well as all restricted gifts, grants, and contracts to the extent that the monies are expended for current operations.

Only those revenues derived from the provision of goods or services directly related to instruction, research, or public service are included in the

category "Private Gifts, Grants, and Contracts." Revenues derived from the sale of goods or services incidental to the conduct of instruction, research, or public service should be shown as "Sales and Services of Educational Activities."

Income from funds held in revocable trusts or distributable by direction of the trustees of such trusts should be reported under this classification. This category does not include revenues derived from contracts for activities not related to the primary missions of the institution (e.g., land rental, utility services, etc.). But monies received as a result of gifts, grants, or contracts from a foreign government would be included in this category.

Amounts equal to direct costs incurred should be recorded as charges against current restricted funds and reported as Restricted Current Funds revenues. Related indirect costs recovered should be reported as unrestricted revenues.

When the performance of donated services is significant for an institution, the value of donated services should be included in this category. The value of donated services should be determined by relating such services to equivalent salaries and wages (including the normal staff benefits, such as group insurance and retirement benefits) for similarly ranked personnel in the same institution or similar institutions. This gross amount should be reduced by the amount of maintenance, living costs, and personal expenses whenever such expenses are incurred on behalf of the contributing personnel

(e.g., institutions operated by religious groups). An imputed value for donated services should be recorded in this category only if the following circumstances exist:

1. The amount of such donated services is significant when compared to the total revenues for the reporting entity.
2. The services performed are a normal part of the institution's programs or supporting services and would otherwise be performed by salaried personnel.
3. The organization exercises control over the employment and duties of the donors of the services.
4. The organization has a clearly measurable basis for determining the value of such services.

In reporting a figure for "Private Gifts, Grants, and Contracts," that portion of the total which is an amount imputed to donated services should be clearly identified and appropriately noted in the financial statements of the institution.

ENDOWMENT INCOME

Endowment income includes the following: (1) unrestricted income of endowment and similar funds, (2) restricted income of endowment and similar funds to the extent expended for current operating purposes, and (3) income from funds held in trust by others under irrevocable trusts.

The unrestricted income from endowment and similar funds credited to revenues should be the total ordinary income earned (or yield) on the investments of these funds.

Income from investments of endowment and similar funds does not include capital gains and losses, since such gains and losses are accounted for in the Endowment and Similar Funds group. If a portion of the gains of endowment or quasi-endowment funds investments is utilized for current operating purposes, the portion so utilized should be reported as a transfer rather than as revenues.

Income from funds held in trust by others under irrevocable trusts should be separately identified under this heading.

SALES AND SERVICES OF EDUCATIONAL ACTIVITIES

Sales and services of educational activities include revenues derived from the sales of goods or services that are incidental to the conduct of instruction, research, or public service. Examples of such revenues are film rentals, scientific and literary publications, testing services, university presses, and dairy products. For revenue reporting purposes, the type of service rendered takes precedence over the form of the agreement by which those services are rendered. Therefore, the incidental revenues of educational departments would not be included in the category "Private Gifts, Grants, and Contracts," even if they should be performed under contract.

If service to the students rather than training and instruction is the primary purpose of the activities which create the revenue, it should be classified as "Sales and Services of Auxiliary Enterprises."

This category does not include the revenues generated by hospitals operated by the institution. These revenues should be classified as "Sales and Services of Hospitals." However, revenues derived from health clinics that are not part of a hospital, excluding those that are a part of the student health services program, should be reported in this category.

SALES AND SERVICES OF AUXILIARY ENTERPRISES

This category includes all revenues generated by the auxiliary enterprises operations of the institution. An auxiliary enterprise is an entity which exists to furnish goods or services to students, faculty, or staff and which charges a fee that is directly related, although not necessarily equal, to the cost of the service. The general public may be incidentally served by some auxiliary enterprises. Auxiliary enterprises include residence halls, food services, student health services, intercollegiate athletics (if operated as essentially self-supporting operations), college unions, college stores, and other services, such as barber shops, movie houses, etc.

This category does not include revenues received in the form of grants, gifts, or endowment income restricted for auxiliary enterprises, but is limited to monies derived directly from the operation of the auxiliary enterprises themselves.

SALES AND SERVICES OF HOSPITALS

Sales and services of hospitals includes the revenues (net of discounts, allowances, and provision for doubtful accounts) of a hospital operated by the institution. It includes revenue from daily patient services (i.e., medical, surgical, pediatrics, intensive care, etc.), revenue from nursing services (i.e., operating room, recovery room, etc.), and revenue from other professional services (i.e., laboratories, blood bank, etc.). It does not include revenue for research and other grants, gifts, appropriations, or endowment income restricted for hospital operations, but is limited to monies that are directly attributable to the operation of the hospital. Revenues of health clinics that are part of the hospital should be included in this category, unless such clinics are part of the student health services program.

OTHER SOURCES

"Other Sources" includes all items of revenue not covered elsewhere. Examples are interest income and gains (net of losses) from investments of unrestricted current funds. This category also includes revenues resulting from the sales and services of internal service departments to persons or agencies external to the institution (e.g., miscellaneous rentals, the sale of computer time, etc.).

INDEPENDENT OPERATIONS

"Independent Operations" includes all revenues associated with operations independent of or unrelated to the primary missions of the institution (i.e., instruction, research, public service) although they may indirectly contribute to the enhancement of these programs. This category generally includes only those revenues associated with major federally funded research laboratories. Such revenues include not only those derived from sales and services of such operations, but all other revenue for research and other grants, gifts, or appropriations restricted to these operations. This category does not include the net profit (or loss) from operations owned and managed as investments of the institution's endowment funds.

DEFINITIONS: CURRENT FUND EXPENDITURES & MANDATORY TRANSFERS

INSTRUCTION

This category includes expenditures for all activities which are part of the institution's instruction program, with the exception of expenditures for remedial and tutorial instruction (which should be categorized as Student Services). Expenditures for both credit and noncredit activities should be included in this category.

Expenditures for departmental research and public service which are not separately budgeted should be included in this classification. This category will exclude expenditures for academic administration where the primary assignment is administration (e.g., academic deans). However, expenditures for departmental chairmen, since instruction is still an important role of the administrator, should be included in this category.

This category is comprised of the following subcategories:

- General Academic Instruction includes expenditures for instructional activities operating during the academic year (as defined by the institution) and associated with academic offerings described by HEGIS discipline categories 0100 through 4900. Both credit and noncredit activities which fall within the 0100 to 4900 HEGIS categories should be included. Expenditures for an "open university," short courses, or home study activities which fall within 0100 to 4900 would be included in this category.

- Occupational and Vocational Instruction includes expenditures for activities established primarily to provide instruction in disciplines usually associated with HEGIS discipline categories 5000 through 5500.

  Both credit and noncredit activities falling within these HEGIS discipline categories should be included. Open university, short courses, and home study falling within these HEGIS categories would be included.

- Special Session Instruction includes expenditures for instructional activities in operation during a summer session, interim session, or other period that is not common with the institution's regular term and which are made solely as a result of conducting the special session (e.g., faculty salaries). A special session would not simply be a regular academic term held during the summer months, but should be a unique session. Expenditures for a special session term which is conducted over a fiscal year end should be reported totally within the fiscal year in which the program is predominantly conducted. The revenues and expenditures for any special session should be reported in the same fiscal year. This procedure for reporting the expenditures of special sessions is an allowable exception to reporting expenditures on an accrual basis.

- Community Education includes expenditures for activities intended to provide instruction to members of the community or groups external to the institution. This subcategory includes both credit and noncredit

activities. It also includes community instructional activities managed separately by an extension division or similar agency within the institution.

RESEARCH

This category includes all funds expended for activities specifically organized to produce research outcomes and commissioned by an agency either external to the institution or separately budgeted by an organizational unit within the institution. This category does not contain all sponsored programs (e.g., training grants), nor does it contain sponsored research only, since internally supported research programs should also be included in this category. It includes only expenditures for departmental research specifically budgeted for research.

This category is comprised of the following subcategories:

- Institutes and Research Centers includes expenditures for research-related program elements that are part of a formal research organization created to manage a number of research efforts.

- Individual or Project Research includes expenditures for research activities that are normally managed within the academic departments and that have been created as a result of a contract or a grant or through the specific allocation of institutional resources for the conduct of a research study or investigation. This category would include those departmental research expenditures which are separately budgeted.

PUBLIC SERVICE

This category includes all funds budgeted specifically for public service and expended for activities established primarily to provide noninstructional services beneficial to groups external to the institution. Such activities can include seminars, projects, and various organizational entities established to provide services to particular sectors of the community.

The associated subcategories are the following:

- Community Service includes expenditures for those activities carried out to provide general community services, excluding instructional activities. Community service is concerned with making available to the public various resources and unique capabilities that exist within the institution. Examples of such activities include conferences and institutes, general advisory services and reference bureaus, radio and television, consultation, and similar activities.

- Cooperative Extension Service includes expenditures for those noninstructional activities that are established as the result of cooperative extension efforts between the institution and outside agencies (e.g., agriculture extension, urban extension). This subcategory is intended primarily for land-grant colleges and universities. The distinguishing feature of activities in this subcategory is that the programmatic and fiscal control is shared by the institution with one or more governmental agencies.

ACADEMIC SUPPORT

This category includes all funds expended for activities carried out primarily to provide support services that are an integral part of the operations of one of the institution's three primary programs: instruction, research, and public service. It includes the retention, preservation, and display of materials and the provision of services that directly assist the academic functions of the institution. This category includes the media and technology (e.g., computing support) employed by the three primary programs as well as the administrative support operations that function within the various academic units (which includes the development of future instructional activities).

This category is broken down into the following subcategories:

- Libraries includes expenditures for all activities that directly support the operation of a catalogued or otherwise classified collection of published material.

- Museums and Galleries includes expenditures for all activities established to provide services related to the collection, preservation, and exhibition of historical materials, art objects, scientific displays, etc. Libraries are excluded.

- Audio/Visual Services includes expenditures for all activities providing audio and/or visual materials or media services to support the three primary programs.

- Computing Support includes expenditures for activities established to provide computing support to the three primary programs. Excluded from this category is administrative data processing, which is included as part of the "institutional support" category.

- Ancillary Support includes expenditures for activities providing support services to the three primary programs but not appropriately classified within the previous subcategories. An example of ancillary support is a demonstration school associated with the school of education. The expenditures of teaching hospitals are excluded.

- Academic Administration and Personnel Development includes expenditures that provide administrative support and management direction for the three primary programs. This subcategory is intended to separately identify the expenditures for the management function in the primary programs. This category would include the expenditures of academic deans but would not include those of the departmental chairmen, which would be included in the appropriate primary function categories.

- Course and Curriculum Development includes only those expenditures that are separately budgeted for activities that may result in instructional offerings at some point in the future. It would also include separately identifiable expenditures for any activities intended to improve the content or presentation of current course offerings.

STUDENT SERVICES

This category includes all funds expended for admissions, registrar activities, and activities whose primary purpose is to contribute to students' emotional and physical well-being and to their intellectual, cultural, and social development outside the context of the formal instruction program.

This category is comprised of the following subcategories:

- Social and Cultural Development includes expenditures for those activities that have been established to provide for the students' social and cultural development outside the degree curriculum. Activities included in this category are cultural events, student newspapers, intramural athletics, student organizations, etc. Expenditures for the intercollegiate athletics program would be included in this category if it is not operated as an essentially self-supporting operation, in which case it would be reported in the category "Auxiliary Enterprises."

- Supplementary Educational Service includes expenditures for those activities established primarily to provide matriculated students with supplemental instruction outside of the normal academic program (i.e., remedial instruction).

- Counseling and Career Guidance includes testing centers, placement office, etc. Excluded from this category is informal academic counseling provided by the faculty in relation to course assignments.

- Financial Aid Administration includes expenditures for activities established to provide financial aid services and assistance to students. This category does not include expenditures for outright grants to students, which would be included in "Scholarships and Fellowships."

- Student Admissions and Records includes expenditures for activities of the student admissions office and the registrar's office.

- Student Health Services includes expenditures for student health services that are operated as a service to the student body rather than as an essentially self-supporting auxiliary enterprise.

INSTITUTIONAL SUPPORT

This category includes all funds expended for activities whose primary purpose is to provide operational support for the day-to-day functioning of the institution, excluding expenditures for physical plant operations. Appropriate allocations of institutional support should be made to auxiliary enterprises, to hospitals, and to any other activities not reported under the heading of "Educational and General" expenditures.

This category is comprised of the following subcategories:

- Executive Management includes expenditures for all central executive-level activities concerned with the management of and long-range planning for the entire institution, distinct from any one program

within the institution. Includes such operations as executive direction (e.g., governing board), planning and programming, and legal operations.

- Fiscal Operations includes expenditures for those operations related to fiscal control and investments of the institution. Includes such operations as the accounting office, bursar, internal and external audits, etc.

- General Administrative Services includes expenditures for those activities that provide central administrative support to the other activities of the institution. Includes administrative data processing, space management, and employee personnel and records.

  This category does not include expenditures for student admissions and the registrar's office, which should be reported as "Student Services."

- Logistical Services includes expenditures for activities that provide procurement services and the orderly movement of support materials for the campus operation. Includes purchasing, transportation, printing, campus security, etc.

- Community Relations includes expenditures for activities established to maintain relationships with the general community, alumni, or other constituents and to conduct activities related to development and fund raising.

OPERATION AND MAINTENANCE OF PLANT

This category includes all expenditures of current funds for the operation and maintenance of physical plant, net of amounts charged to auxiliary enterprises and hospitals. It does not include expenditures made from the institutional plant fund accounts. It includes all expenditures for operations established to provide services and maintenance related to campus grounds and facilities. It also includes utilities, property insurance, fire protection, and similar items.

SCHOLARSHIPS AND FELLOWSHIPS

This category applies only to monies given in the form of outright grants and trainee stipends to individuals enrolled in formal coursework, either for credit or not.

The criteria to be used in determining which monies to include in the "Scholarships and Fellowships" expenditure category are the following:

1. The monies must represent expenditures of the Current Funds group.
2. The institution must have fiscal control of the funds which were used to make the grant.
3. The recipients should not be formally required to render services to the institution as consideration for the grant, nor should they be expected to repay the amount of the grant to the funding source.
4. The institution must have selected the recipient of the grant. If the institution is given control of the monies, but is not allowed

to select the recipient of the grant (e.g., the federal Basic Educational Opportunity Grants program), the funds should be reported in the Agency Funds group rather than in the Current Funds group.

Aid to students in the form of tuition and fees remissions also should be included in this expenditure category. However, remissions of tuition and fees granted as a result of either faculty or staff status, or family relationship of students to faculty or staff, should be recorded as staff benefit expense in the appropriate expenditure category.

Expenditures for trainee stipends awarded to individuals not enrolled in formal coursework should be included in either "Instruction," "Research," or "Public Service," whichever is appropriate.

The terms "financial aid" or "student aid" refer to the total package of all forms of student financial assistance and include "Scholarships and Fellowships" as one such form of assistance. However, "student aid" also includes student loans and payments for student services rendered (e.g., student jobs). Where services are required in exchange for the financial assistance, as in the case of the federal College Work/Study Program, the charges should be classified as expenses of the department or organizational unit to which the service is rendered. Loans to students are not scholarships and fellowships, but constitute a conversion of cash to receivables in the Loan Funds group. The sum of monies associated with "student aid" is, therefore, a derived figure and is not maintained in the accounting records

of the Current Funds group or any other fund group. The institution may therefore want to report a footnoted figure for "student aid" in addition to expenditures for "Scholarships and Fellowships."

"Scholarships and Fellowships" is comprised of two subcategories:

- Scholarships includes outright grants-in-aid, trainee stipends, tuition and fees waivers, and prizes to undergraduate students.

- Fellowships includes outright grants-in-aid and trainee stipends to graduate students. It does not include funds for which services to the institution must be rendered (e.g., payments for teaching).

AUXILIARY ENTERPRISES

An auxiliary enterprise is an entity which exists to furnish a service to students, faculty, or staff, and which charges a fee that is directly related to, although not necessarily equal to, the cost of the service. The distinguishing characteristic of auxiliary enterprises is that they are managed as essentially self-supporting operations. Therefore, although revenues do not always exceed or equal expenditures, auxiliary enterprises fees, unlike those of any other institutional operation, are usually set with this goal in mind. The general public may incidentally be served in some auxiliary enterprises. Examples are residence halls, food services, intercollegiate athletics, and student stores.

This category of expenditures embraces all costs, except depreciation, of operating the institution's auxiliary enterprises, including charges for physical plant operations and general institutional support. Also included in this category are other direct and indirect costs whether charged directly as expenditures or allocated as a proportionate share of the costs of other departments or units. Mandatory transfers of auxiliary enterprises (i.e., mandatory provisions for debt retirement, other financing costs, and renewals and replacements) should be reported in the mandatory transfers category.

This category is comprised of the following subcategories:

- Auxiliary Enterprises-Student includes all expenditures and charges for auxiliary enterprise activities primarily intended to furnish services to students. Student health services, when operated as an auxiliary enterprise, would be included. Intercollegiate athletics are excluded from this subcategory.

- Auxiliary Enterprises-Faculty/Staff includes all expenditures and charges for auxiliary enterprise activities primarily intended to provide a service to the faculty or staff. Such activities include the faculty club, faculty/staff parking, faculty housing, etc.

- Intercollegiate Athletics includes all expenditures for intercollegiate sports operated in accordance with the definition of an auxiliary enterprise.

HOSPITALS

This category includes all expenditures, except depreciation, associated with the operation of the hospital, including nursing expenses, other professional services, general services, administrative services, fiscal services, and charges for physical plant operations. Expenditures for activities that take place within the hospital but that are more appropriately categorized as Instruction or Research should be excluded from this category and accounted for in the appropriate categories. Mandatory transfers made for debt retirement, other financing costs, and renewals and replacements should be excluded from this category and separately reported in the mandatory transfers category.

MANDATORY TRANSFERS

"Mandatory Transfers" includes all transfers from Current Funds which must be made to other fund groups in order to fulfill a binding legal obligation of the institution. They are distinct from voluntary provisions made at the discretion of the institution's governing body and are therefore separately classified.

Mandatory transfers should be reported in the following subcategories:

- Provision for Debt Service on Educational Plant includes mandatory debt-service provisions relating to academic buildings, including (1) amounts set aside for debt retirement and interest, and (2) required provisions for renewals and replacements to the extent not financed from other sources.

- Provision for Debt Service on Auxiliary Enterprises includes mandatory debt service provisions relating to auxiliary enterprises, including amounts set aside for (1) debt retirement and interest and (2) required provisions for renewals and replacements to the extent not financed from other sources.

- Provision for Debt Service on Hospitals includes mandatory debt service provisions relating to hospitals, including amounts set aside for (1) debt retirement and interest and (2) required provisions for renewals and replacements to the extent not financed from other sources.

- Loan Fund Matching Grants includes mandatory transfers to loan funds as required to match outside gifts or grants, usually from the U.S. government.

- Other Mandatory Transfers includes all mandatory transfers not included in the above categories. Other mandatory transfers that are material should be itemized within the mandatory transfers category. Those made for hospitals or auxiliary enterprises should be separately identified.

INDEPENDENT OPERATIONS

This category includes all funds expended for operations that are independent of or related to the primary missions of the institution (i.e., instruction, research, public service), although they may

indirectly contribute to the enhancement of these programs. This category is generally limited to expenditures for the operation of major federally funded research laboratories. This category does not include the expenditures of operations owned and managed as investments of the institution's endowment funds.

SECTION IV

CHAPTER 7

HEFM IMPLICATIONS FOR ACCOUNTING SYSTEMS

The Higher Education Finance Manual describes several report formats which, if used, have significant implications for institutional accounting systems. This section describes some of these system implications and lists those data elements needed to prepare the HEFM report formats.

HEFM DATA REQUIREMENTS

The report formats described in the Higher Education Finance Manual are intended to facilitate the exchange and reporting of institutional financial data at the institutional, state, and federal levels. These HEFM reports are actually aggregations of data that are generated through numerous day-to-day financial transactions. Therefore, the data categories included in the HEFM report formats are designed to be "summary aggregations" of the more detailed data maintained in institutional accounting systems. In most cases, the "categories" needed for the preparation of the HEFM report formats are categories within particular data "elements" (for example, the revenue categories maintained in the data element "source of funds").

HEFM REPORT FORMATS AND THE ACCOUNTING SYSTEM

From a data maintenance and collection standpoint, there actually are two types of financial statements described in HEFM. The Balance Sheet and the Statement of Changes in Fund Balances are "auditable" financial

statements prepared by summarizing those transactional data collected during the reporting period. In certain instances, the HEFM report formats often will require data categories different from those institutions have used in the past. For example, if an institution has been using the income categories set forth in College and University Business Administration (ACE: 1968), use of the revenue categories proposed by the Joint Accounting Group (as recommended for "additions" in the Statement of Changes in Fund Balances) will involve some significant changes. (Table I shows these two sets of income categories.) Therefore, although some of the categories used in the Statement of Changes in Fund Balances may be different, the display formats for both statements are familiar ones and most institutional accounting systems should be able to produce these reports without much difficulty.

While it is hoped that institutions also will be able to prepare the HEFM Current Fund Source/Use Schedules with auditable data, some estimates may be required. The preparation of the Source/Use Schedules introduces several factors that will impact upon institutional accounting systems.

1. The Current Fund revenue and expenditure categories will represent some changes for almost every institution because the source/use formats stipulate use of the JAG categories. However, the JAG revenue and expenditure categories are being adopted and recommended by NACUBO, the AICPA, and NCHEMS and will result in more and more requests for data in these categories. Individual institutions may choose between two alternatives in satisfying requests for data in

the JAG categories. Many institutions will choose actually to "record" data in the JAG categories by making the appropriate changes in the institution's accounting system at the transactional level. Incorporation of the JAG expenditure categories at their most detailed level of aggregation (that is, subcategory level) will improve the institution's ability to use and report expenditure data for many purposes. A second alternative, other than incorporating the categories directly into the institution's income and expenditure accounting systems, is to use a "crossover" or table look-up procedure for reaggregating the data into the JAG categories. However, incorporation of the JAG categories directly into the institution's administrative data systems will allow for the easy and accurate preparation of comparable financial reports without the inherent problems of conducting crossover procedures.

2. The most significant implication of the source/use formats is that restricted Current Fund expenditures must be reported by source of funding. In order to satisfy this requirement the institution's accounting system must be able to identify the source of funding used for expenditures of restricted Current Funds. Institutions typically trace sources of funding in one of two ways. One way is to include a specific source of revenue code as part of the account number for every transaction in the expenditure accounting system. Where this alternative is used, adequate classification within the source of revenue code will provide the needed link between sources and uses of restricted funds. A second way, perhaps the more common practice,

is to identify the source of revenue as part of a "structured" fund code. This usually means that all unrestricted funds are reported as one fund code and all restricted funds are reported separately by fund group. Within each restricted fund code, several digits identify the specific source of funds in that group. The biggest problem in using a "structured" fund code in this way is that the number of revenue sources that can be followed is limited by the number of digits set aside within each fund group code for this purpose. A need to maintain information on more revenue sources than the system is designed to accommodate will result either in a breakdown of the coding structure or in an inability to maintain the needed information.

Therefore, an accounting system that (1) incorporates the JAG categories and subcategories and (2) also is capable of providing the source/use link for restricted funds will aid in the preparation of accurate HEFM reports.

JAG EXPENDITURE CATEGORIES AND THE PCS

The expenditure categories of the Joint Accounting Group were developed to serve as the functional expenditure categories which, if incorporated directly into the institution's accounting system, would significantly minimize the problems of reporting expenditure data in the PCS format. The following discussion is taken directly from Report of the Joint Accounting Group (AICPA, NACUBO, NCHEMS, 1974) and describes the relationship of the JAG expenditure categories to the PCS.

"One of the primary reasons for development of the JAG expenditure categories was the need to provide a compatible means of reporting an institution's transactional expenditure data in the Program Classification Structure (PCS). The JAG categories meet this objective. The JAG categories were designed to be the categories which would become an integral part of the institution's transactional accounting system. Data collected in the JAG categories would then serve as the transactional "data base" from which PCS data could be derived.

"The JAG structure consists of twelve major function categories, each defined in terms of associated subcategories. If transactional expenditure data are collected and maintained at the subcategory level of the JAG structure, reporting data in the PCS format can be accomplished with little difficulty. The expenditures included in each subcategory of the JAG structure can be mapped almost directly to corresponding subcategories of the Program Classification Structure. It is at the subcategory level of the JAG expenditure categories and the subprogram level of the PCS that the easiest and most meaningful crossover of data can be accomplished.

"It must be recognized that the PCS is a "program structure" which defines the program concept for fairly detailed levels of institutional activity. Detailed financial data in such a "program" format cannot be obtained by simply reformatting an institution's transactional accounting data. In almost every instance, a considerable

amount of analytical work will have to be conducted in order to determine the "program contributions" of the institution's various activities. The results of such program analyses will then have to be used to modify the transactional information that an institution maintains by activity (such as its transactional financial accounting data). It is this adjusted "program information" that is displayed in the more disaggregate levels of the PCS. The transactional data which are crossed over at the subprogram level of the PCS actually serve as the "analytical data base." Modifications will be made to this analytical data base on the basis of the results of a variety of program analyses. Therefore, if the derived program data are to be meaningful for decision-making purposes, this analytical data base must be reconcilable to financial statements prepared in accordance with the JAG categories of transactional data. The consistency of definitions between the JAG subcategories and the PCS subprograms will provide the capability to conduct such a reconciliation.

"The following table has been prepared as an aid in comparing the JAG expenditure categories and the Program Classification Structure. It should be viewed as a comparison only and not as a set of cross-over procedures for reformatting data from the JAG categories into the PCS. It is based on the PCS as defined in NCHEMS Technical Report 27 (Program Classification Structure, Gulko, 1972). It should be pointed out that the PCS categories have been revised somewhat for use in the NCHEMS Cost Finding Principles project and in the Information Exchange Procedures project. These revisions make the PCS even more compatible with the categories and definitions recommended

by the Joint Accounting Group. A revision of the Program Classification Structure will soon be conducted by NCHEMS and the NCHEMS staff is confident that many of the revisions now being used in the Cost Finding Principles and Information Exchange Procedures projects will be adopted for the revised PCS. However, until such revisions are formally made the only meaningful comparison is one between the JAG categories and the PCS as described in Technical Report 27.

"The following table compares the JAG categories and the PCS at the respective subcategory and subprogram level. No comparison is described at the JAG category and PCS program level. The PCS subprogram which is most closely related to the appropriate JAG subcategory is shown adjacent to the JAG subcategory. An accompanying "Remarks" section describes any major differences between the JAG subcategories and the PCS subprograms. However, the reader must determine where less significant differences exist by comparing the detailed definitions for both sets of categories."

TABLE 1

Comparison of JAG Subcategories to PCS Subprograms

JAG CATEGORY	RELATED PCS SUBPROGRAM	REMARKS
INSTRUCTION		
• General Academic	1.1 General Academic	The JAG subcategories include both credit and noncredit instructional activities. The PCS subprograms include only credit instruction. The PCS includes noncredit instruction in the subprogram 3.1 - Community Education.
• Occupational & Vocational	1.2 Occupational & Vocational	
• Special Session	1.3 Special Session	
• Community Education (only extension for credit)	1.4 Extension (for credit)	
• Community Education (noncredit)	3.1 Community Education	
RESEARCH		
• Institutes & Research Centers	2.1 Institutes & Research Centers	No major differences.
• Individual or Project Research	2.2 Individual or Project Research	
PUBLIC SERVICE		
• Community Service	3.2 Community Service	No major differences.
• Cooperative Extension Service	3.3 Cooperative Extension Service	
ACADEMIC SUPPORT		
• Libraries	4.1 Libraries	The PCS subprogram 4.5 includes Hospitals, which are a major JAG category. The JAG subcategory Ancillary Support, except for the exclusion of Hospitals, is the same as PCS 4.5.
• Museums & Galleries	4.2 Museums & Galleries	
• Audio/Visual Services	4.3 Audio/Visual Services	
• Computing Support	4.4 Computing Support	
• Ancillary Support	4.5 Ancillary Support	
• Academic Admin. & Personnel Dev.	4.6 Academic Admin. & Personnel Dev.	The PCS subprogram 4.6 includes expenditures for departmental chairmen whereas JAG includes such expenditures as a part of Instruction.
• Course & Curriculum Development	4.7 Course & Curriculum Development	

TABLE 1, continued

JAG CATEGORY	RELATED PCS SUBPROGRAM	REMARKS
STUDENT SERVICES • Social and Cultural Development • Supplementary Educational Service • Counseling & Career Guidance • Financial Aid Administration • Student Admissions & Records • Student Health Services	5.1 Social & Cultural Development 5.2 Supplementary Educational Service 5.3 Counseling & Career Guidance 5.4 Financial Aid 6.3 General Administrative Services 5.5 Student Support	The definitions of "Social & Cultural Development" will differ somewhat. The PCS includes expenditures for Intercollegiate Athletics if operated as an auxiliary enterprise in this subprogram as 5.1.7200. JAG includes intercollegiate athletics in the AUXILIARY ENTERPRISE category if operated as a self-supporting entity. Otherwise they are included in this subcategory. The JAG subcategories "Student Admissions and Records" and "Student Health Services" are both only a portion of the activities defined in the two related PCS subprograms.
INSTITUTIONAL SUPPORT • Executive Management • Fiscal Operations • General Administrative Services • Logistical Services • Community Relations	6.1 Executive Management 6.2 Fiscal Operations 6.3 General Administrative Services 6.4 Logistical Services 6.7 Community Relations	The JAG category and the PCS program, although both have identical names, are not the same because the JAG category excludes expenditures for operation and maintenance of physical plant. The PCS subprogram 6.3 includes "Student Admissions and Records" as 6.3.8220 whereas a separate subcategory within the JAG category "Student Services" was created for such expenditures.
OPERATION AND MAINTENANCE OF PLANT	6.5 Physical Plant Operations	No major differences.
SCHOLARSHIPS AND FELLOWSHIPS • Scholarships • Fellowships	Does not exist	At the present time, no PCS program exists comparable to this JAG category.

TABLE 1, conclusion

JAG CATEGORY	RELATED PCS SUBPROGRAM	REMARKS
AUXILIARY ENTERPRISES • Auxiliary Ent. - Student • Auxiliary Ent. - Faculty/Staff • Intercollegiate Athletics	5.5 Student Support 6.6 Faculty & Staff Services 5.1 Social & Cultural Development	The PCS does not recognize the method by which an activity is financed. The JAG subcategories are therefore only a portion of the activities defined in the related PCS subprograms.
HOSPITALS	4.5 Ancillary Support	This JAG category is only a portion of the total activities defined in the PCS subprogram 4.5.
INDEPENDENT OPERATIONS	7.0 Independent Operations	No major differences. This category in both the PCS and JAG is intended to be used for those activities which are independent of, or unrelated to, the primary missions of the institution.
MANDATORY TRANSFERS • Provision for Debt Service on Educational Plant • Provision for Debt Service on Auxiliary Enterprises • Provision for Debt Service on Hospitals • Loan Fund Matching Grants • Other Mandatory Transfers	None	No PCS programs exist which are comparable to this JAG category.

INFORMATION ELEMENTS

This discussion addresses the financial information needed to prepare the financial reports described in HEFM.

1. Information Element: Fund Group

   Definition: A group of funds of similar character where fund is defined as "an accounting entity established for the purpose of carrying on specified activities or obtaining certain objectives in accordance with special regulations, restrictions, or limitations."

   Categories: Current Funds
   Loan Funds
   Endowment and Similar Funds
   Annuity and Life Income Funds
   Plant Funds
   Agency Funds

   Remarks: These categories are defined in HEFM Chapter 3: "Understanding Higher Education's Financial Reports."

2. Information Element: Restriction Category

   Definition: The limitations placed by donors upon the uses of those monies they provide the institution.

   Categories: Unrestricted (includes Designated Funds)
   Restricted

   Remarks: These categories are defined in HEFM Chapter 3: "Understanding Higher Education's Financial Reports." A subcategory of unrestricted funds, "designated funds," also is described in that chapter.

3. Information Element: Balance Sheet Categories

Definition: An institutionally defined information element that identifies the nature of the various elements of the institutional statement of financial condition. These elements will be reflected in the statement of each self-balancing fund group.

Categories: Assets
Liabilities
Fund Balance

Subcategories: Assets:

- Cash
- Short-Term Investments
- Accounts Receivable
- Inventories, Prepaid Expenses, etc.
- Notes Receivable
- Marketable Investments
- Institutional Plant
- Interfund Borrowing

Liabilities:

- Accounts Payable
- Student Deposits
- Deferred Revenues
- Notes Payable
- Contracts Payable
- Mortgages Payable
- Bonds Payable

Remarks: These subcategories are defined in HEFM Chapter 4: "Balance Sheet."

4. Information Element: Source of Funds

Definition: An identifier used to group funds added to the various institutional fund groups according to their source.

Categories: Tuition and Fees
Governmental Appropriations - Federal
Governmental Appropriations - State
Governmental Appropriations - Local

Governmental Grants and Contracts - Federal
Governmental Grants and Contracts - State
Governmental Grants and Contracts - Local
Private Gifts, Grants, and Contracts
Endowment Income
Sales and Services of Educational Activities
Sales and Services of Auxiliary Enterprises
Sales and Services of Hospitals
Other Sources
Independent Operations (where applicable)
Transfers In

Remarks: These categories are defined for revenues in the Current Fund in HEFM Chapter 6: "HEFM Current Fund Source/Use Schedules." They are defined for all other additions in HEFM Chapter 5: "Statement of Changes in Fund Balances."

5. Information Element: Fund Deductions--Type

Definition: An institutionally defined information element used to identify those funds used out of a particular fund group, by type, during the reporting period.

Categories: Current Fund Expenditures
Loan Cancellations and Write-Offs
Expended for Plant Facilities
Debt Service
Other Deductions
Transfers Out

Remarks: These categories are defined in HEFM Chapter 5: "Statement of Changes in Fund Balances." There will be other categories of deductions needed in most institutions. The categories listed here are those needed to complete the Statement of Changes in Fund Balance in the detail shown in HEFM.

6. Information Element: Functional Classification--Expenditures

Definition: An institutionally defined information element that groups expenditures according to the purpose for which costs were incurred. The following categories usually are applied only to Current Fund expenditures.

Categories: Instruction
Research
Public Service
Academic Support
Student Services
Institutional Support
Operation and Maintenance of Plant
Scholarships and Fellowships
Auxiliary Enterprises
Hospitals
Mandatory Transfers
Independent Operations (where applicable)

Remarks: Definitions for these categories and subcategories are included in HEFM Chapter 6: "HEFM Current Fund Source/Use Schedules." Although it is not necessary to use the associated subcategories to complete the HEFM report formats at the level of aggregation shown in Chapter 6, use of these subcategories will increase the usefulness of the expenditure data for other purposes.

7. Information Element: Fiscal Year

Definition: The institutionally defined consecutive twelve month period to which a financial transaction or summary is applicable.

Categories: Two low order digits of the fiscal year; e.g., fiscal year 1973--"73".

Remarks: It is recommended that institutions use the federal standard of designating the calendar year in which the fiscal year ends as the fiscal year, e.g., 1972-73 = fiscal year 1973.

8. Information Element: Dollar Amount

Definition: The quantifiable measure of a financial transaction or summary as expressed in U.S. dollars.

Other Information Elements

There is other financial information that will need to be maintained in the institution's accounting system. Although this information may be used to prepare one of the HEFM report formats if different data categories are used or if the report is prepared for an organizational unit within the

institution, it will be needed primarily for purposes other than the preparation of HEFM reports.

9. Information Element: Organizational Unit

   Definition: The academic department or other organizational division that has fiscal, programmatic, administrative, and budgetary responsibility for a specified set of activities and accounts.

   Remarks: This information element should be consistent through all uses and files in the institution's administrative data system.

10. Information Element: Object Classification

    Definition: The classification of institutional expenditures according to the type of goods or services received in return for the expenditures.

    Categories:
    Instruction/Research/Public Service Personnel Compensation
    Administrative/Support Personnel Compensation
    Other Staff Compensation
    Supplies and Services (includes travel, communications, etc.)
    Capital Expenditures - Equipment
    Capital Expenditures - Buildings
    Scholarships and Fellowships
    Expenditures for Items Purchased for Resale
    Capital Cost - Buildings and Land Improvements
    Capital Cost - Equipment
    Rental
    Interest Payments
    Principal Payments

    Remarks: These categories are needed for various NCHEMS projects, including the Cost Finding Principles project. The two "capital cost" categories are derived, rather than transactional, objects of expenditure.

11. Information Element: Transaction Date

    Definition: The calendar date on which the transaction takes place. This information element is that date recorded on the document finalizing the transaction.

Remarks: This information element will be needed for financial control purposes whereas the element "Fiscal Year" will be used more for reporting purposes.

12. Information Element: Transaction Description

Definition: A descriptive word or phrase used to characterize the transaction.

Remarks: This information element can be used to describe the transaction over and above what is provided by the other information elements.

13. Information Element: Debit/Credit Indicator

Definition: An institutionally defined information element used to signify whether the transaction is to be added to or deducted from the balance of the account.

14. Information Element: Chargeback Indicator

Definition: An institutionally defined information element used to identify expenditures for support activities which are "charged back" to the purchasing organizational unit.

Remarks: This information element will be needed by those institutions employing a system of chargebacks for the NCHEMS Information Exchange Procedures project.

15. Information Element: Accounting Basis Indicator

Definition: An institutionally defined information element used to identify the accounting basis on which a particular transaction is to be reported.

Categories: Accrual Basis
Cash Basis

Remarks: The accrual basis is recommended by Audits of Colleges and Universities (AICPA: 1973) for the reporting of higher education financial data and is therefore recommended for all NCHEMS reporting needs. However, transactions may also have to be recorded and reported on the cash basis as well in many institutions to satisfy certain needs for financial information.

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